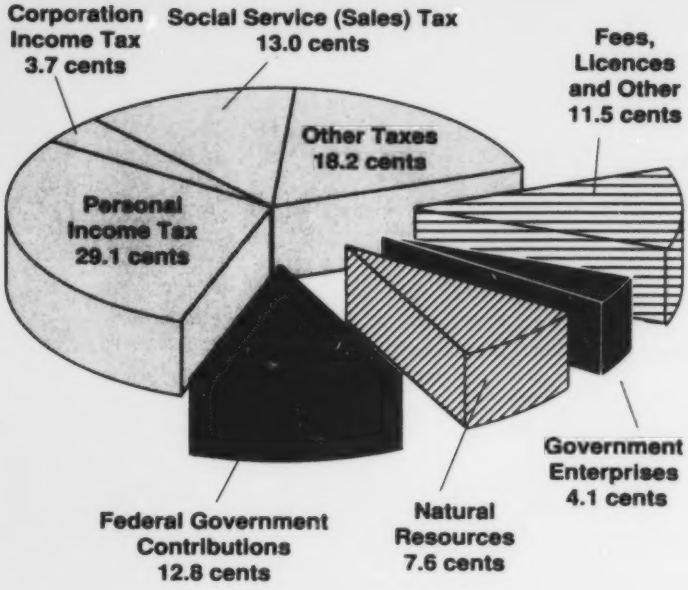
Province of British Columbia
Ministry of Finance
and Corporate Relations

Honourable Glen Clark, Minister

Budget 1992

Budget-in-Brief

Where 1992/93 Government Revenue Comes From


Corporation Income Tax 3.7 cents
Social Service (Sales) Tax 13.0 cents
Fees, Licences and Other 11.5 cents
Other Taxes 18.2 cents
Personal Income Tax 29.1 cents
Government Enterprises 4.1 cents
Federal Government Contributions 12.8 cents
Natural Resources 7.6 cents

- Effective January 1, 1992, the general corporation income tax rate will increase by one percentage point to 16 per cent of taxable income, which returns it to pre-1987 levels.
- The small business rate will rise by one percentage point to 10 per cent.
- The corporation capital tax, currently paid only by large financial institutions, will be reintroduced for all corporations with paid-up capital of more than $1 million. The rate will be three-tenths of one per cent on paid-up capital for corporations other than financial institutions.
- These revenue measures are essential to ensure the protection of B.C.'s health, education and social service programs.

March 26, 1992

Minister's Message

I am proud to present our 1992 budget — a budget which protects essential services while getting B.C.'s finances under control.

This budget provides a road map for working with the public and private sectors and creating a healthy and prosperous B.C.

The $17.98 billion budget projects a deficit of $1.79 billion. This is far below the $2.8 billion deficit forecast by the Independent Financial Review.

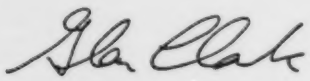
We have reduced the deficit by shifting the government's spending priorities and by cutting the rate of growth in government spending by half. This budget contains the lowest spending growth in five years.

We have cut waste and are ensuring that your hard-earned tax dollars are spent smarter.

This will let us target a limited amount of new spending for our most urgent priorities — equality for women, environmental protection, investing in B.C.'s future, and helping regional economies recover from the recession.

This budget cares about people and holds the line on taxes for working men and women.

We have ensured that additional revenues needed to protect essential services are raised fairly with the additional burden being borne equally by individuals and corporations.

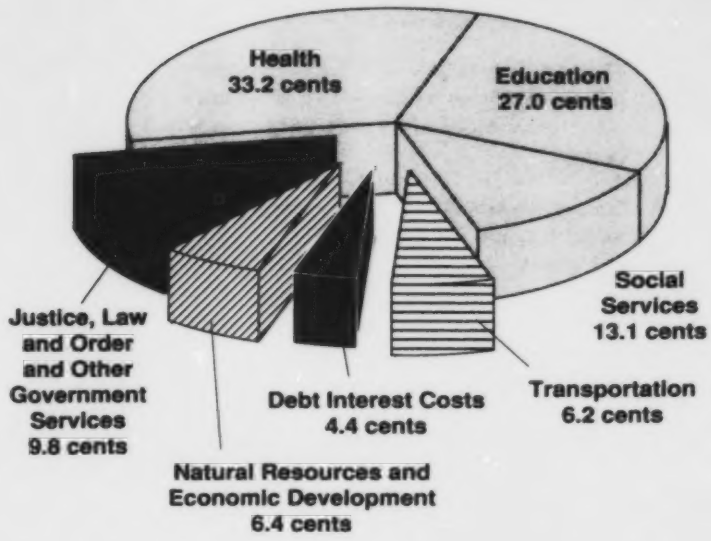


Glen Clark
Minister

Protecting essential health and education services

- Funding for health care is being increased by $409 million this year for a total of $5.94 billion.
- Medical Services Plan premiums will be frozen while the government considers options for reducing or eliminating them.
- The overall growth in physicians' billings will be capped and the Doctors' Pension Plan will be eliminated.
- Community-based family health and prevention programs will be enhanced with $64 million in redirected funding.
- Another $15 million will pay for new disease prevention and public health initiatives in schools and communities.
- Half of all lottery proceeds will flow directly into a new fund to finance innovative health care initiatives.
- Education spending is up by almost $300 million to a total of $3.6 billion, an increase of 9.1 per cent. This will fund projected cost increases and growing population pressures.
- Operating grants to universities, colleges and institutes will increase by $41 million, an increase of 4.3 per cent.
- An additional 2,800 full-time, post-secondary spaces will be made available to help keep pace with population growth and rising demand.
- Post-secondary tuition fees will be frozen this year while government undertakes a review of accessibility problems.

Where Your Tax Dollar Is Being Spent in 1992/93



Maintaining social services

- Because of high demand and federal funding cutbacks, B.C. will have to spend an additional $231 million this year just to maintain the existing income assistance programs. The 19-per-cent increase is needed because more British Columbians are out of work and many Canadians from other provinces have moved here to seek jobs.

Equality for women

- The government is directing an additional $32 million to extend pay equity to the public sector.
- Another $29 million is being set aside to achieve wage parity between public employees in the lowest-paid categories.
- Programs aimed at preventing crimes of violence against women and children, and for victim assistance, will be funded with an additional $6 million.
- Child care support programs will increase by $17 million.

Protecting our environment

- A comprehensive review of environmental legislation will be carried out and a first State of the Environment Report issued.
- $4.5 million has been committed to improve pollution monitoring, enforcement and environmental protection.

New investments for jobs and the future

- Close to $1 billion in new social capital will be undertaken, creating jobs while building essential infrastructure.
- Crown corporations will also make major new investments.
- The British Columbia Endowment Fund will be established, seeded with money from the former Privatization Benefits Fund. It will invest prudently in an array of diversified assets and in partnership with the private sector.
- Direct job creation measures aimed at those most in need include $57 million for the Employment Opportunities and Job Action programs — a 43 per cent increase over last year. The GAIN earnings exemption is doubled to $100 for single persons and to $200 for persons with dependants.

A better economic deal for B.C.'s regions

- Premier Mike Harcourt will host a summit on trade and the B.C. economy in June.
- Better management of natural resources and the resolution of conflicts will be undertaken.
- Badly needed planning and inventory work will be undertaken by the forests and environment ministries with the help of $15 million.
- The budget provides $15 million to create a new Natural Resource Community Fund to deal with problems faced by resource-dependent communities. An additional $5 million per year will be provided by setting aside one-half of one per cent of natural resource revenues.
- Emergency funding is in place to assist the Okanagan tree fruit industry.

Cutting waste and spending smarter

The government will save more than $40 million this year by cutting waste and by smarter spending.

- $12 million saved by reducing contracting and overtime in the Ministry of Transportation and Highways.
- Up to $5 million saved with new bidding procedures and other changes in the Purchasing Commission.
- $1 million saved by assigning another aircraft full time to air ambulance duties.
- $3.9 million saved by eliminating two redundant assistant deputy minister positions and staff.
- $5 million saved by reducing government advertising.
- Eliminating the Hazardous Waste Management Corporation and the Office of the Compensation Fairness Commissioner.
- Closing the Cloverdale transportation museum.
- Winding down the Forest Resources Commission.
- A one-year freeze on the salaries and allowances of all Cabinet ministers and MLAs.
- The Legislature's Board of Internal Economy will be abolished and replaced with a mechanism that won't allow MLAs to set their own salaries and benefits.
- Lottery funds will be spent through individual ministries, and will be subject to clear program guidelines.

Looking ahead

- The economy is expected to grow by three per cent in 1992, resulting in a net gain of 30,000 jobs.
- Lower interest rates are expected to encourage more consumer spending and housing activity.
- Recent declines in the dollar should help exports, provided the U.S. and other trading partners do not raise new barriers.

Paying a fair share

The budget introduces revenue measures that will generate $681.5 million in new revenue in 1992/93.

- Effective July 1, 1992, the basic personal income tax rate will go up by one percentage point. Middle- and low-income earners will not pay more because the change is offset by the federal government's reduction of its income tax surtax.
- Also effective July 1, 1992, the personal income tax surtax rate will be increased, and will generally become payable at an income level greater than $60,000 for a typical single taxpayer. This increase is in addition to the existing surtax on individuals earning more than $86,500. The change will not affect the 92 per cent of B.C. taxpayers in the lower- and middle-income ranges.

Province of British Columbia
Ministry of Finance and Corporate Relations

Honourable Glen Clark, Minister

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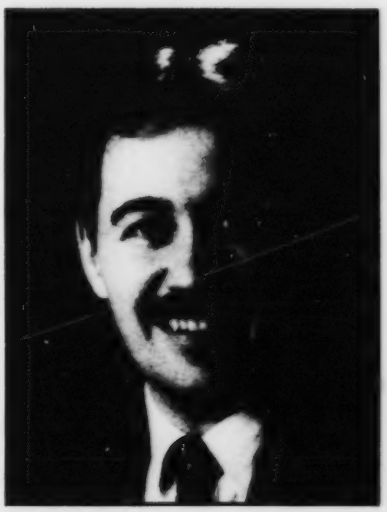
Delivered in the Legislative Assembly
March 26, 1992
by Honourable Glen Clark
Minister of Finance and Corporate Relations



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1992 BRITISH COLUMBIA BUDGET HIGHLIGHTS

SAFEGUARDING ESSENTIAL SERVICES FOR PEOPLE

- Spending priorities that maintain essential health, education and social services.
- Health spending up by 7.4 per cent to $5.9 billion.
- Resources redirected toward community and preventive programs.
- Education spending up by over nine per cent to $3.6 billion.
- Income assistance spending up by 19 per cent to keep up with increased demand.
- Half of all lottery proceeds flow directly into a new Health Special Account.

CUTTING WASTE AND IMPROVING EFFICIENCY

- $40 million saved by cutting wasteful spending and trimming operating costs.
- After providing for essential services, other program spending to decline by 3.6 per cent.

FISCAL HIGHLIGHTS

- Expenditures to total $17.98 billion.
- Revenues to total $16.19 billion.
- Deficit of $1.79 billion for fiscal 1992/93.
- Rate of spending growth cut in half.

REVENUE MEASURES

- New revenue measures necessary to maintain essential services.
- Personal income tax rate increased by one percentage point. Increase for middle- and low-income earners will be offset by federal surtax reduction. Those earning $60,000 or more are now subject to increased B.C. surtax.
- Corporation income tax up by one percentage point.
- Corporation capital tax re-introduced at 0.3 per cent on companies with paid-up capital over $1 million.
- Supplementary Home Owner Grant replaced by higher basic grant, and the grant for seniors is increased.

BUILDING FOR THE FUTURE

- Cost savings reallocated to fund strategic new initiatives — women's equality, environmental protection and job creation.
- New British Columbia Endowment Fund created.
- Funding for Employment Opportunity and Job Action programs up 43 per cent to $57 million.
- Encouraging trade and long-term investment, including a summit on trade and the British Columbia economy scheduled for June 1992.

Budget 1992

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Budget 1992

BUDGET SPEECH

Introduction

Honourable Speaker, it is my honour to present the first budget of this New Democrat administration.

Five months ago, British Columbians voted overwhelmingly for change.

They voted for:

- a change of administration;
- a change of priorities; and
- a change in the way government operates.

The challenge we face in this budget is to implement this mandate given the unfavourable fiscal situation left to British Columbians by the previous government.

Our task is to get our spending priorities right while bringing British Columbia's finances under control.

This means pursuing policies that are fair to all British Columbians.

It also means ensuring the stability and investor confidence essential for creating wealth and realizing our economic potential.

This government is determined to take the leadership necessary to secure our long-term future and to create the economic conditions necessary to help British Columbians achieve their aspirations.

Goals of a Sound Economic Policy

In introducing our first budget, let me lay out the goals that will guide our economic policies over the coming years.

Open government

First, we are committed to openness and honesty.

During the election campaign we committed to open government and we have begun to act on that commitment.

One of the first acts of our government was to give a full and open briefing on the state of British Columbia's finances — the first time that such a briefing has been given in the history of this province.

We then commissioned a comprehensive and independent financial review, so that British Columbians have a clear and objective picture of the province's current fiscal situation.

We have also prepared this budget in an open manner by seeking advice from British Columbians in all regions and all walks of life.

I held formal consultations and briefings with business, labour, and community groups.

Fairness

Second, we are committed to fairness.

That means pursuing policies that don't play favourites — policies that are in the interests of all British Columbians.

We are committed to fairness in the delivery of public services.

That means safeguarding the basic services that protect individuals and families.

We are committed to fairness in the tax system.

That means raising the revenues necessary to maintain essential public services on the basis of people's ability to pay.

Sound financial management

Third, this government is committed to sound and prudent management of the province's finances.

Without a sound financial base, it is impossible for government to address adequately the priorities of its citizens.

Prudent fiscal management means getting British Columbia's budget deficit under control.

Fourth, we are committed to policies which foster economic stability and confidence.

Stability and confidence

Both consumers and businesses need stability in order to plan their economic future.

For working British Columbians, stability means less anxiety about job security and greater consumer confidence.

For business, a stable environment means less risk and greater ability to compete.

This is particularly important in British Columbia, which depends on secure trade and financial links with the international business community.

By taking a longer-term strategic perspective we will ensure the stability necessary for investor confidence and economic growth.

Let me turn now to a review of our economic situation.

Economic Performance and Outlook

While British Columbia's economy has fared relatively well compared to the rest of North America, our economy did not grow in 1991.

The Canadian economy as a whole shrank by 1.5 per cent last year, while British Columbia experienced a decline of about one-half of one per cent.

Many communities in British Columbia have felt the weight of the recession.

Ottawa's high interest rates and the high value of the Canadian dollar have had a particularly severe impact on resource exports which sustain many of our communities.

Our forest and mining industries have lost 18,000 jobs over the last two years.

However, moderate economic growth is projected to resume this year.

Growth to resume this year

Consumer spending is expected to pick up with lower interest rates.

A recovery in housing starts is already contributing to stronger investment this year.

Stronger economic growth internationally in the second half of 1992 should lead to further improvements in export markets provided our trading partners do not raise new barriers.

In summary, we expect the economy to grow by three per cent in 1992, resulting in an additional 30,000 jobs.

Fiscal Review and Outlook

Government inherited poor fiscal situation

Honourable Speaker, the fiscal situation we inherited from the previous administration is much less favourable.

That government's 1991 budget projected a deficit of $395 million.

However, when adjusted for the Budget Stabilization Fund, the real deficit was forecast to be $1.2 billion.

The previous government's budget also contained projections showing the deficit disappearing by 1994/95.

In October of last year, when we finally had an opportunity to examine the province's books, they revealed a completely different picture.

The deficit forecast for 1991/92 was $1.7 billion and rising.

This situation was confirmed by the Independent Financial Review, which we commissioned shortly after taking office and which reported earlier this month.

It projected that the real deficit for the fiscal year just ending would be $2 billion more than the previous government estimated in last year's budget.

Furthermore, the review concluded that, without government action, the deficit would rise to $2.8 billion for the coming fiscal year and $3.2 billion the year after.

This situation is clearly unacceptable.

Provincial government expenditures have grown by an annual average of 12 per cent in the last three years — far in excess of revenue, inflation or economic growth.

The Independent Financial Review concluded that this fiscal deterioration was due, in large part, to the spending policies and poor financial management of the previous government.

It was also due to unprecedented cutbacks in federal transfer payments.

Federal cutbacks hurt B.C.'s finances

The federal government has repeatedly cut back its share of health and education funding.

It has arbitrarily capped its contributions under the Canada Assistance Plan to the so-called "have" provinces — British Columbia, Ontario and Alberta.

It has cut millions of dollars in other shared-cost programs covering everything from farm assistance to reforestation to social housing.

The cost of this offloading to British Columbia will be $1.4 billion during the coming fiscal year.

In addition, the federal government has increased its own deficit and that of the provinces by its misguided high interest rate policy.

The Challenge

Getting priorities right and finances under control

The challenge we face in this budget is to address the priorities of British Columbians while bringing the province's finances under control.

This means steady, concerted action to bring the deficit down — not draconian restraint with its legacy of hardship and economic instability.

Specifically it means:

- levelling with British Columbians about the true state of the province's finances;
- ensuring that spending is targeted to high priority areas;
- eliminating waste and getting spending under control; and
- ensuring that the additional revenue needed to maintain essential services is raised fairly.

This budget, Honourable Speaker, meets the challenge.

Spending growth cut in half

- We have cut the growth of government spending in half while safeguarding basic services.

Deficit reduced

- And we have reduced the deficit to $1.79 billion — a cut of a billion dollars from the level projected by the Independent Financial Review.

This budget demonstrates that we have started to restore British Columbia's financial health.

Financial Accountability

The Independent Financial Review has made recommendations to improve financial accountability.

A number of them have been adopted in this budget.

The review confirmed what British Columbians have known for some time — the Budget Stabilization Fund and the so-called "Balanced Budget Plan" served only to mislead the public and create confusion.

We have accepted the review's recommendation that the so-called *Taxpayer Protection Act*, with its discredited Balanced Budget Plan, be repealed.

First step on road to balanced budget

This year, we have taken the first step on the road to a balanced budget by concrete action, and we will take additional steps in future budgets.

In addition, in order to give a more accurate picture of the province's finances, the estimates I have tabled today have been prepared on a consolidated revenue fund basis.

Ensuring accountability

This change will prevent government from using devices such as the Budget Stabilization Fund to manipulate the bottom line.

The Independent Financial Review also recommended that the government consider changes to the way in which it accounts for operating and capital expenditures.

We will be reviewing this and other recommendations carefully and making appropriate changes.

Safeguarding Basic Services

When British Columbians voted for change last October, they wanted a government that was prepared to get spending priorities right.

This government believes that the highest priority must be given to safeguarding essential services to people.

The spending decisions we have made in this budget reflect that priority.

Health

Preserving first-rate health care

British Columbians place the highest priority on maintaining first-rate, universally accessible health care services.

In order to maintain these services, we have provided an additional $409 million in this budget.

This represents an increase of 7.4 per cent.

To help ensure that health care remains universally accessible, Medical Services Plan premiums will be frozen.

Over the coming year, we will be considering options for reducing or eliminating these premiums as recommended by the Royal Commission on Health Care and Costs.

In addition, this government will continue to take a strong stand against the re-introduction of medical user fees in Canada.

The Royal Commission has documented other challenges facing our health care system.

These include maintaining universal access to health care, keeping costs under control, putting more emphasis on prevention, and developing innovative, community-based alternatives.

Ensuring survival of universal medicare

In fact, the Royal Commission concludes that redirecting health care dollars towards community-based and preventive programs is essential for the very survival of universal medicare.

- To begin meeting this challenge we have provided an additional $64 million to enhance community-based family health and prevention programs.
  - These funds will be targeted to those in greatest need — low-income families, children at risk, persons with disabilities, and in particular, those suffering from mental illness.
- And, a further $15 million has been provided to fund new disease prevention and public health initiatives in schools and communities.

Strengthening health care in these areas will pay future dividends in the form of reduced costs for expensive, acute care hospital services.

Honourable Speaker, over 20 per cent of all provincial health spending goes to physicians — a total of almost $1.4 billion during this coming year.

We will be taking steps to eliminate the Doctors' Pension Plan, cap the overall growth of physicians' billings, and re-allocate these savings to other high-priority health care areas.

Such action is essential if we are to maintain the viability of our health care system.

Lottery revenue for health

During the election campaign we promised to earmark half of all revenues from provincial lotteries to health care.

To fulfil this commitment, we have set up the Health Special Account.

Half of all lottery proceeds will flow directly into the account, and will be used to finance urgent health care priorities.

While we have given priority to maintaining health services in this year's difficult fiscal environment, growth in health spending is considerably below last year's increase.

Maintaining quality care will require increased efficiency in the spending of health dollars as well as the cooperation of all health care workers, professionals and administrators.

Education

Protecting quality education

Education is also a high priority.

We will ensure our children continue to receive a quality education.

Education spending in this budget is up by almost $300 million over last year's level.

That represents an increase of 9.1 per cent — enough to fund projected cost increases and population pressures.

Operating grants to universities, colleges and institutes will increase by $41 million in 1992/93.

This represents an increase of 4.3 per cent.

This increase includes funding for an additional 2,800 full-time post-secondary spaces to help keep pace with population growth and increasing demand.

Tuition fee freeze

We will also freeze post-secondary tuition fees this year, while we undertake a comprehensive review of accessibility problems.

Social Services

Maintaining British Columbia's social safety net represents a particularly difficult challenge.

More British Columbians are out of work, and many Canadians from other provinces have moved to British Columbia in their search for better economic opportunities.

At the same time, the federal government has introduced changes which make it more difficult for people to collect unemployment insurance benefits.

The result has been a large increase in families and individuals requiring income assistance.

Traditionally, the federal government has shared the cost of income assistance with the province on a 50/50 basis.

However, the federal government's arbitrary decision to cap the increase in its contributions means that British Columbia now bears almost the entire burden of the growing demand for social assistance.

The impact on British Columbia this coming year is dramatic.

Last year, the rapid growth in the demand for income assistance resulted in total spending of over $1.2 billion — well over the original 1991/92 estimates.

Simply funding the existing income assistance program is projected to cost an additional $231 million in the coming fiscal year — a 19 per cent increase over last year's levels.

Protecting the social safety net

In summary, Honourable Speaker, this budget safeguards basic health, education, and social services in the face of serious fiscal constraints.

Controlling Costs and Improving Efficiency

However, maintaining these services has meant limiting, or even reducing, expenditures in other areas.

For example, the government services, tourism, economic development, energy and mines, agriculture, and transportation and highways ministries will all spend less in the coming year.

In fact, Honourable Speaker, after subtracting the amount required to maintain basic health, education and social services, the growth in other program spending — excluding debt service — will **decline** by 3.6 per cent in 1992/93.

Cutting wasteful spending

By cutting wasteful spending and trimming operating costs, we have saved over $40 million.

Let me outline just a few of the specific measures being taken to achieve our efficiency targets.

New efficiency savings

- The Ministry of Transportation and Highways will reduce its overtime bill by almost $2 million and its contracting bill by another $10 million through more effective use of its staff.
- The Purchasing Commission is implementing changes including new bidding procedures and anticipates savings of up to $5 million.
- The government's Challenger jet will be sold for an annual operating cost-saving of $340,000.
- The Air Services Branch will reduce health care costs by approximately $1 million by allocating another aircraft full-time to air ambulance duties.
- The Ministry of Government Services is eliminating an assistant deputy minister position and a redundant policy unit for a saving of $500,000.
- The Ministry of Economic Development, Small Business and Trade is eliminating an assistant deputy minister position and program staff for a saving of $3.4 million.

- The Ministry of Agriculture, Fisheries and Food has closed the under-utilized Victoria office of the Agricultural Land Commission.

- Ministries across government are curtailing their advertising expenditure for a saving of over $5 million.

We are also eliminating a number of redundant government entities.

Redundant entities eliminated

- The Office of the Compensation Fairness Commissioner is being eliminated.

- The Lottery Fund and a number of other special accounts will be eliminated. Lottery funds will now be spent through individual ministries and be subject to clear program guidelines.

- The Hazardous Waste Management Corporation, which was poorly administered and failed to achieve its objectives, will be eliminated. Strategies to deal with hazardous wastes will be developed by the Ministry of Environment, Lands and Parks.

- The Forest Resources Commission will be wound up. Much of its important role is now being performed by the new Commission on Resources and Environment.

- The transportation museum in Cloverdale will be closed.

- The Independent Financial Review has identified the existence of 179 separate boards, commissions and Crown agencies. We are determined to reduce this number. We will review these agencies to identify those which are redundant and could be abolished.

Elected officials to do their part

We also believe that elected officials must do their fair share to reduce the costs of government.

During the coming fiscal year we will:

- initiate a one-year freeze on the salaries and allowances of all MLAs and Cabinet Ministers; and

- abolish the Board of Internal Economy and replace it with a new independent mechanism to review MLAs' salaries and benefits.

The elimination of wasteful spending and the achievement of maximum value for the taxpayer's dollar is a long-term task.

The Independent Financial Review has concluded that the government currently lacks the mechanisms and resources to undertake a complete, longer-term assessment of spending decisions.

Over the coming year, we will be moving to address these problems.

Ensuring value for money

We will strengthen and expand the role of Treasury Board to deal more effectively with cost control and program evaluation.

In this year's spending estimates, we have provided an additional $350,000 to increase value-for-money auditing.

It is an investment which will repay itself many times over in new efficiencies and reduced program costs.

These initiatives will allow us to achieve cost savings in future years without jeopardizing services to British Columbians.

Revenue Measures

We have achieved significant savings on the spending side of the ledger — spending growth has been cut in half.

Spending controls not enough

Unfortunately, as the Independent Financial Review has shown, spending controls alone are not enough.

New revenue measures are unavoidable if we are to maintain services and avoid being swamped by uncontrolled deficits.

Ensuring revenues raised fairly

While all British Columbians are being asked to pay a little more, it is important that these additional revenues be raised fairly.

We also recognize that our tax rates must be competitive with other jurisdictions.

Therefore, the revenue measures I am announcing today are directed to those who can most afford to pay, and will maintain British Columbia's competitive tax position.

Personal income tax measures

First, the basic personal income tax rate will be increased by one percentage point, effective July 1, 1992.

The impact of this increase will be offset by the federal government's reduction of its income surtax so that middle- and lower-income earners will not pay more.

It is important that British Columbians recognize that this federal tax cut was financed by the reduction of federal government support for essential programs like health care and education.

Effective July 1, 1992, the personal income surtax rate will be increased, and will become payable at income levels over $60,000 for a typical single taxpayer.

This increase will be in addition to the existing surtax on individuals earning more than $86,500.

These personal income tax surcharges apply to only the wealthiest eight per cent of taxpayers — those most able to pay a little more.

The increase represents an additional **three cents** on each dollar earned above the surtax threshold.

For example, a single taxpayer with an income of $80,000 will pay $278 more this year and $566 more next year.

This surcharge will not affect the 92 per cent of British Columbia taxpayers in the middle- and lower-income ranges.

These changes will make British Columbia's personal income tax system more progressive.

Additional revenue from personal income tax measures is forecast to be $147 million in 1992/93.

Ensuring corporations pay their fair share

Second, corporations will be asked to pay their fair share.

Since 1985, rates have been cut on a wide range of taxes paid by corporations while individual taxpayers have been burdened with large tax increases.

This trend was confirmed by the Independent Financial Review.

Effective January 1, 1992, the general corporation income tax rate will increase by one percentage point — from 15 to 16 per cent of taxable income.

This change returns corporate income tax rates to pre-1987 levels, and British Columbia's corporation income tax remains competitive with other provinces.

In order to maintain the relationship between the corporate and personal income tax systems, the small business rate will also rise by one percentage point to 10 per cent.

This rate remains below the 11 per cent charged in 1987.

The corporation capital tax, currently paid only by large financial institutions, will be reintroduced for all corporations with paid-up capital in excess of $1 million.

The tax rate will be three-tenths of one per cent on paid-up capital for corporations other than financial institutions.

The current capital tax for large banks will be increased to three per cent from two per cent.

For smaller financial institutions the rate will be one per cent.

These changes take effect April 1, 1992.

These new corporation capital tax rates are fully competitive with those in other provinces.

We are also providing an incentive for new investment as part of the corporation capital tax.

This new investment deduction in the capital tax is the first of its kind in Canada, and shows we recognize the importance of wealth creation and a positive business climate.

Taken together, these corporate revenue measures fulfil our promise to implement a minimum tax on large corporations to ensure that they pay their fair share of education and health services in British Columbia.

The corporate tax measures which I have outlined are forecast to generate $268 million of additional revenues in 1992/93.

School property tax changes

Third, we are introducing two changes to school property taxation to help maintain quality education while improving overall tax fairness.

Effective in 1992, the supplemental Home Owner Grant will be removed and replaced with a five per cent increase in the basic Home Owner Grant — from $430 to $450.

The grant for seniors will increase to $720.

Unlike the basic Home Owner Grant, the supplemental grant was not equitable because it conferred a disproportionate benefit on the owners of higher-priced homes.

In addition, non-residential school tax rates will increase by an average of six per cent to restore some of the balance between residential and non-residential contributions.

New levy to preserve legal aid

Fourth, we are introducing a new levy on legal billings to help offset rising legal aid costs.

The provincial government's contribution to these services has more than doubled over two years to $72 million for 1992/93.

The choice was to curtail legal aid for those lower-income people in need or to find new revenues.

We will also be considering a range of options for delivering these services more efficiently.

Fifth, we are introducing a number of commodity-specific revenue measures including an increase in the jet fuel tax and higher liquor mark-ups.

Pollution fee overhaul

We will also undertake a major overhaul of British Columbia's pollution discharge permit fee system this year.

Simply put, the more you pollute, the more you'll pay.

Honourable Speaker, I am well aware that nobody likes to pay higher taxes.

During my pre-budget consultations, many groups and individuals strongly urged us not to increase any taxes.

Unfortunately, adopting this advice was simply not possible.

It would have meant going beyond the cost-savings we have made in this budget to curtailing those essential services that all British Columbians rely on.

Or, it would have meant letting the deficit we inherited run out of control and seriously undermine confidence in our economy.

Revenue measures essential to preserve basic services

The Independent Financial Review concluded that new revenue measures are an essential part of any realistic strategy to maintain services while getting the province's finances under control.

The measures we have taken will raise approximately one-half of the $1.4 billion we will lose this year from the cutback in federal cost-sharing.

This revenue package is also balanced — with the additional burden being borne equally by individuals and corporations.

And, Honourable Speaker, we have avoided a sales tax rate increase in this budget.

It maintains British Columbia's competitiveness with other jurisdictions.

Overall, our tax rates will remain among the lowest in Canada.

This package is fair.

While everyone is being asked to pay a little more, the level of increase is based on ability to pay.

Summary of Fiscal Plan

Let me now outline this budget's fiscal plan.

Expenditures for fiscal 1992/93 will total $17.98 billion — an increase of 4.7 per cent.

Excluding write-offs and other adjustments arising from the Independent Financial Review, this expenditure level represents an increase of 6.8 per cent.

Lowest spending growth in five years

This is one-half of last year's expenditure growth rate.

This budget contains the lowest spending growth in five years.

Prudent management has allowed us to maintain our basic services while cutting spending growth to a more manageable level.

Revenues for fiscal 1992/93 will total $16.19 billion.

This represents an increase of 9.2 per cent over the current year's revenue.

Deficit reduced to $1.79 billion

The resulting deficit for fiscal 1992/93 is $1.79 billion.

This is a significant reduction from the $2.34 billion deficit recorded last year.

It is one billion dollars below the deficit that the Independent Financial Review estimated would have resulted if no action had been taken.

Building for the Future

This government is committed to getting British Columbia's financial house in order.

However, our commitment goes beyond simply managing this province's finances more effectively.

Meeting emerging challenges

We are convinced that our longer-run future depends on the development of new and innovative solutions to emerging economic and social challenges.

We believe that requires a longer-term, strategic perspective.

While we recognize that now is not the time to initiate large, expensive new programs, we believe that it is prudent to begin laying the groundwork necessary to address emerging problems while they are still manageable.

For this reason, we have re-allocated some of the cost savings we have made to fund a limited number of new initiatives.

Equality for Women

Equality for women is one of our highest priorities.

The current situation in British Columbia where women earn only 67 cents for each dollar earned by men is not acceptable.

Action on pay equity

We promised during the election campaign to achieve pay equity, and we will keep that commitment.

We realize that this goal cannot be achieved overnight, but we are determined to make a start.

Therefore, we have allocated an additional $32 million this year to improve pay equity in the public sector.

This includes funding for year two of a pay equity program for the direct public service, and the extension of pay equity to post-secondary and health care workers.

In addition, we are allocating $29 million for a new initiative aimed at achieving wage parity between low-paid employees in funded agencies and those in the public sector.

Many parents are unable to realize their potential because they lack accessible and affordable child care.

Child care

This year we are increasing child care support programs by $17 million.

Honourable Speaker, equality for women is more than an economic issue.

Too many women live in fear for their personal safety.

Preventing violence against women

We have allocated an additional $6 million this year to programs aimed at preventing crimes of violence against women and providing assistance to its victims.

Protecting Our Environment

This government is serious about protecting our environment.

That's why we moved quickly to issue tough new pulp pollution regulations which will finally phase out toxic pollution.

Better monitoring and enforcement

During the coming fiscal year, we will spend $4.5 million to improve pollution monitoring, enforcement, and environmental protection.

As noted by the Independent Financial Review, such investments pay large economic dividends by avoiding the need for costly environmental rehabilitation.

This year we will be undertaking a comprehensive review of environmental legislation and will issue British Columbia's first State of the Environment Report.

New Investment to Create Jobs and Ensure British Columbia's Economic Future

Cooperation between the private and public sectors is essential to create the wealth necessary to preserve and expand services for people.

New private sector investments are currently under way despite the economic slowdown.

They will help to ensure our future prosperity.

In January, provincial tax incentives were used to help create a new Working Opportunities Fund to encourage British Columbia workers to invest in new British Columbia enterprises.

To date over $7 million in new investment capital has been raised by this fund.

PUBLIC INVESTMENT

Creating wealth also requires public sector investment — in schools, hospitals, universities and other facilities.

We will undertake close to $1 billion in new social capital investments in communities throughout British Columbia.

Building essential public facilities

Crown corporations will also make major investments.

For example, B.C. Hydro will undertake capital expenditures of $550 million for new transmission lines and other facilities.

B.C. Ferries will invest $130 million to construct new ferries and terminal facilities.

These investments build essential infrastructure while maintaining jobs and supporting economic recovery.

In total, public sector capital projects will sustain 16,000 jobs this fiscal year.

BRITISH COLUMBIA ENDOWMENT FUND

Honourable Speaker, I am pleased to announce the creation of the British Columbia Endowment Fund.

This fund will be seeded with the assets of the former Privatization Benefits Fund.

The British Columbia Endowment Fund will be a perpetual fund with a mandate to invest prudently in a range of diversified financial assets.

In particular, we have earmarked $100 million — approximately one-fifth of the total fund — for investments in business enterprises, including venture capital.

New focus on B.C.

The focus of these investments will be in British Columbia — providing a new source of capital to businesses, creating jobs, enhancing value-added production, and expanding British Columbia's export opportunities.

Working in partnership with private sector investors, this portfolio will be managed to secure a market rate of return over time.

There will be no subsidies and no grants.

Our goal is wealth creation, coupled with an attractive return to the British Columbia taxpayer.

ENCOURAGING REGIONAL ECONOMIC DEVELOPMENT

Honourable Speaker, we will be consulting widely and re-evaluating our policies to develop a new approach to regional economic development.

In June, the Premier will be hosting a special economic summit on trade and the British Columbia economy.

Without question, any development assistance must be targeted strategically to obtain maximum results for our scarce dollars.

Experience has shown that economic and regional development problems cannot be solved by throwing money at them.

The Independent Financial Review has clearly shown the consequences of that approach.

It found that business loans and guarantees have been costly, often ad hoc in nature, and subject to excessive political involvement.

This government has begun to lay the groundwork for a more rational development strategy.

First, we are undertaking initiatives to improve the management of our natural resources and resolve conflicts.

Resolving natural resource conflicts

- In early January, we set up a new Commission on Resources and Environment as an essential first step in resolving land use and forestry resource conflicts.
  - — In the coming fiscal year we are providing funding of $4 million to allow the commission to fulfil its mandate.
- We are supplementing this initiative by providing new funding of $15 million to the ministries of forests and environment to undertake badly-needed planning and inventory work.

Second, we are undertaking a number of initiatives to increase the stability of resource-dependent communities.

New natural resource community fund

- This year we will be setting aside $15 million to create a new Natural Resource Community Fund.
  - — Its purpose will be to provide a stable source of funding to deal with the problems facing resource-dependent communities.
  - — Each year, one-half of one per cent of natural resource revenues will be paid into the new fund.
  - — Natural resource revenues will add another $5 million to the fund this year.

Protecting jobs

- We are increasing funding for the Job Protection Commission by 20 per cent to support its efforts to avoid the unnecessary closure of key businesses during this economic downturn.
- And, recently we provided emergency funding to revitalize our Okanagan tree fruit industry.

Third, we are taking a number of direct job creation measures aimed at those most in need.

- We are reducing the penalties faced by GAIN recipients when they enter the workforce.
  - — The monthly GAIN earnings exemption will be increased to $100 for single persons and to $200 for persons with dependants.
  - — This assistance for lower-income earners will cost $16 million during the coming fiscal year.
- In addition, we are providing total funding of $57 million for the Employment Opportunities and Job Action programs — a 43 per cent increase.
  - — These direct employment programs are designed to provide job skills and experience for those in greatest need — particularly young people currently receiving income assistance.
  - — They are also targeted to communities with high unemployment rates.

ABORIGINAL LAND CLAIMS

Land claim settlements mean economic development

Regional economic growth and diversification over the long term also require a just and honourable resolution of aboriginal land claims.

The settlement of aboriginal claims is essential to removing the economic uncertainty which now hinders new investment and job creation in many regions.

It will also result in the injection of new, badly-needed capital into British Columbia's regions and communities.

In order to ensure settlements which are fair to both aboriginal and non-aboriginal people, all British Columbians must be fully consulted.

We have provided $4 million for new initiatives associated with negotiating land claims.

Conclusion

Honourable Speaker, we faced a challenge when preparing the first budget of this New Democrat administration.

The challenge was to get our spending priorities right while bringing British Columbia's finances under control.

In preparing this budget, we were faced with a fiscal situation that was rapidly deteriorating.

And, we were faced with $1.4 billion of unprecedented cutbacks in the federal government's contributions to our most essential programs and services.

In this budget, Honourable Speaker, we have successfully met the challenge.

- We have reduced the deficit while protecting our basic services.
- We have done this by shifting the government's spending priorities while cutting the rate of growth in government spending in half.

- We have reduced waste and begun to achieve efficiency savings.

We have used some of these savings to target a limited amount of new spending for our more urgent priorities:

- reforming the health care system to ensure the survival of universal medicare;
- moving towards equality for women;
- protecting our environment; and
- investing in British Columbia's future and helping regional economies suffering from recession.

And we have ensured that the additional revenues needed to protect basic services are raised fairly.

We promised to pursue the priorities of British Columbians within a sound fiscal framework.

And today we have delivered on that promise.

Our vision, however, goes beyond simply managing the province's finances more effectively.

We look forward to providing a government which is honest and open with all British Columbians.

We look forward to helping build a society which is fair to all its citizens.

And we look forward to building an economy which is stable and confident.

In this budget we are laying the foundation necessary to achieve these goals.

Thank you.

Budget 1992

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APPENDIX A

Economic Review and Outlook

Introduction

As 1992 began, most of Canada remained in a recession. The recovery that appeared to have started last spring faltered by the end of the summer. Although the Canadian economy expanded in both the second and third quarters of 1991, employment gains were minimal and by the end of the year, employment was declining again.

British Columbia was less affected by the recession than the rest of the country. Although it is estimated that the provincial economy declined slightly last year, this is a relatively good performance considering the poor conditions in key export markets. Continued high levels of in-migration from other provinces and countries supported demand for housing, consumer products and services. As a result, employment in British Columbia grew during the year and consumer confidence was stronger than in other parts of Canada.

The outlook is for a very slow recovery in the rest of North America. Slower growth is also expected in Japan and Germany. As a result, British Columbia's economy will grow more slowly than might normally be expected after a year of no growth.

The External Environment

The United States

The United States is British Columbia's largest single trading partner, accounting for about 43 per cent of the province's merchandise exports in 1991. The value of British Columbia exports to the U.S. was down about 6 per cent in 1991. The U.S. is also the destination for about 75 per cent of Canadian exports. As a result, the performance of the American economy has played a large role in the Canadian recession.

Although it is uncertain whether the U.S. is still in a recession, growth remains slow and imperceptible to the average person. The consumer sector of the economy has been in recession since mid-1990 and business investment has been very weak, in part due to the excess supply of commercial and residential real estate.

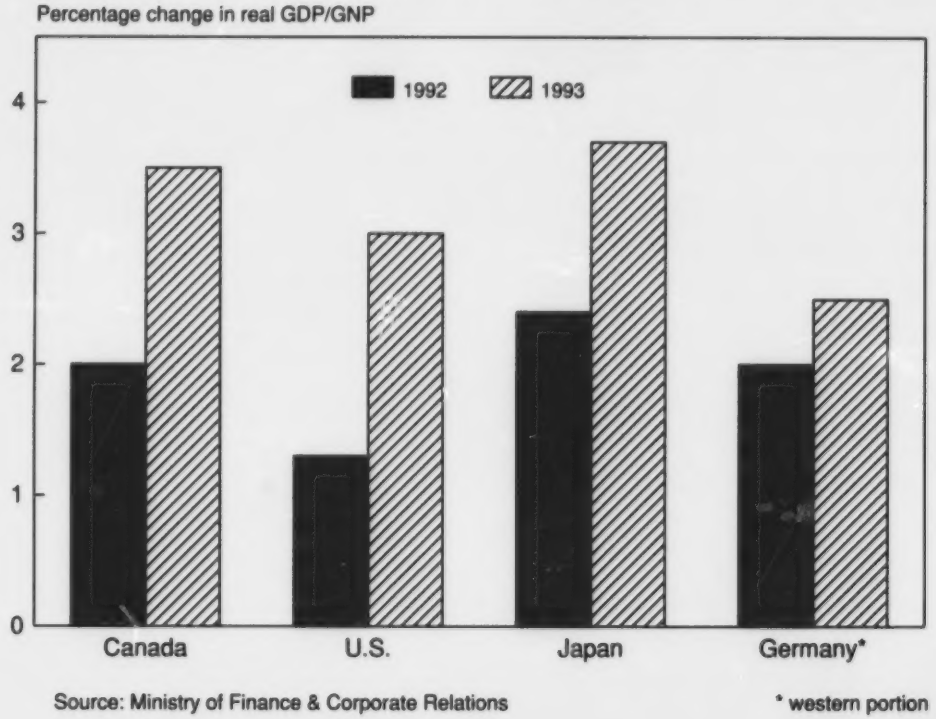
Government spending has often supported and stimulated the economy in past recessions, but this time, with no fiscal flexibility, state and local governments have been forced to raise taxes and cut spending to meet constitutionally-mandated balanced budget requirements. According to the U.S. administration, the federal government's budget provides a small amount of fiscal stimulus.

The only area of relative strength in the U.S. economy in 1991 was the external trade sector. Export volumes grew 6.6 per cent, despite the recession in Canada — the United States' largest trading partner — and a second-half slowdown in Japan and Europe.

As a result of depressed domestic spending, the economy remains much weaker than was predicted a year ago. The January 1991 *Blue Chip* forecast consensus called for the U.S. economy to shrink 0.1 per cent. In fact, the economy declined 0.7 per cent and the anticipated recovery in the second half of the year was weaker than expected. By Christmas, the U.S.

recovery had lost all of its momentum. Consumers reined in their spending due to concerns about "down-sizing", "restructuring", layoffs and plant closures. As a result, industrial production stagnated as manufacturers quickly adjusted to shrinking demand.

CHART A1
ECONOMIC GROWTH FORECASTS



Source: Ministry of Finance & Corporate Relations

* western portion

Employment and industrial production both declined in January, while retail sales were up more than expected. A rise in existing home sales, low mortgage interest rates and the Bush administration's proposed two-year $5,000 tax credit for first-time home buyers brightened the outlook for housing construction. Housing starts should total 1.25 million in 1992, up 23 per cent from 1991.

In the past, the economy has expanded about 6 per cent in the year following a recession. During the 1990-91 recession, output and employment losses were only about half as severe as in an average recession, and the subsequent recovery is expected to be weak. The March 1992 *Blue Chip* consensus suggests growth of 1.6 per cent this year and 3.1 per cent in 1993. The Ministry of Finance and Corporate Relations is forecasting U.S. real gross domestic product (GDP) growth of 1.3 per cent in 1992 and 3 per cent in 1993.

Slow U.S. growth in 1992 implies slow growth in Canada as well.

Japan and Europe

Japan and Europe account for 27 per cent and 15 per cent, respectively, of British Columbia's exports. There was a sharp slowdown in growth in these economies in the second half of 1991. As a result, the value of British Columbia exports to Europe and Japan fell about 14 per cent in 1991.

Japan's economy grew at an annual rate of only 2.8 per cent in the second quarter of 1991 and 1.6 per cent in the third quarter, after expanding 8.3 per cent in the first quarter. For the year, growth was 4.4 per cent. Consumer spending, housing starts and business investment slowed as the effects of the unusually high interest rates began to take effect. Technically, Japan probably has not experienced a recession, but the slowdown has felt like one in a country used to 5 to 6 per cent annual economic growth.

Although the Bank of Japan cut interest rates twice in the last quarter of 1991, the economy is likely to grow slowly in the first half of 1992. Consumers are being cautious; many are experiencing a decline in wealth as residential real estate prices continue to fall. Business investment will be weak, according to the most recent Bank of Japan survey of investment intentions. However, the external trade sector and government spending may provide some stimulus in the second half of the year. Overall, the Japanese economy is forecast to grow 2.4 per cent in 1992.

In Europe, the western part of Germany grew 3.1 per cent in 1991, while France and Italy grew very slowly. The other major European economy, the United Kingdom, was in recession through all of 1991 as real GDP fell 2.5 per cent.

After expanding 10 per cent in the first quarter of 1991, western Germany's economy actually shrank during the rest of the year. According to the Bundesbank, this was not a sign of recession, but reflected a return to more normal levels of activity following the burst of fiscal stimulus, spending and investment during re-unification. The economy of the former east Germany probably bottomed out in 1991 as output declined an estimated 20 per cent. In 1992, the forecast for western Germany calls for real GDP growth of 2 per cent. Growth estimates for the east are in the 10 per cent range.

Despite the slowdown in Germany, the European economy should expand 2 per cent in 1992, due to modest growth in France and Italy and a slow improvement in the United Kingdom.

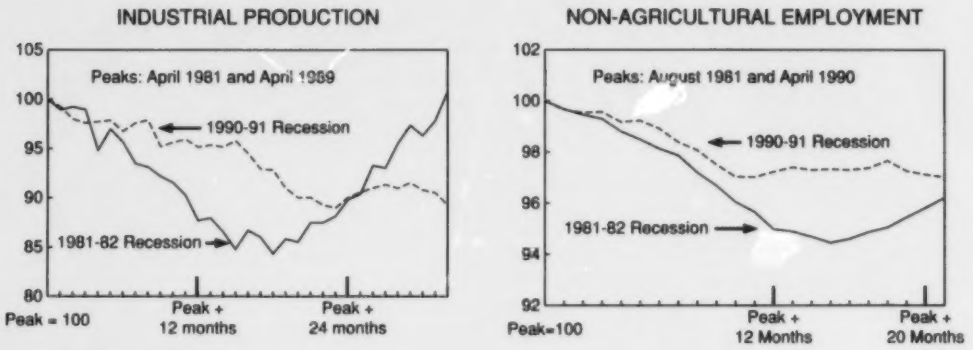
Canada

The Canadian economy appeared to be coming out of the 1990-91 recession when the economy grew at a 5.5 per cent annual rate in the second quarter of 1991. However, similar to the pattern in the United States, the economy faltered in the second half of the year. Real GDP declined at a 0.8 per cent annual rate in the fourth quarter after growing only 0.4 per cent in the third quarter.

Other indicators show the continuing weakness of the economy:

- After bottoming in February 1991, seasonally-adjusted employment rose by 70,000 through October, but then fell 83,000 between October and February 1992.
- Manufacturers' orders and shipments, and industrial production declined as 1991 drew to a close.
- Retail sales appeared to have bottomed out early in 1991 and recovered through the spring. However, after June they stagnated.
- Seasonally-adjusted housing starts peaked at 198,000 in October but had fallen to 162,000 by February 1992.

CHART A2
CANADIAN RECESSIONS COMPARED



Source: Statistics Canada

As in the United States, the weakness in consumer spending can be attributed to a drop in consumer confidence, due to nervousness about employment security. Additionally, there is a widespread perception that the recent recession in Canada was worse than the 1981-82 downturn. In fact, the decline in output and employment across Canada has been about half that experienced in the 1981-82 recession.

In some areas, such as housing, falling interest rates have partly offset the lack of confidence about the future. Nevertheless, the desire of consumers to cut back on spending and build up savings due to this uncertainty has spread through the economy.

The key question, then, is when consumer confidence will return. The assumption in this forecast is that people will remain pessimistic for the first half of 1992, holding down consumer spending. However, continued low interest rates and the emergence of pent-up demand for key products such as automobiles should lead to a gradual recovery in spending in the second half of the year. In addition, the current wave of layoffs and plant closures in central Canada will wane, which will improve the perceptions of job security of the 97 per cent of workers who retained their jobs (see Chart A2).

In this environment, investment will remain weak. Statistics Canada's Private and Public Investment Intentions survey projects that non-residential investment will be flat in current-dollar terms in 1992. Foreign trade is unlikely to add much to growth in 1992, mainly due to continued weakness in the U.S. and overseas. As a result, the Canadian economy is expected to grow just 2 per cent in 1992 and 3.5 per cent in 1993.

Financial Markets

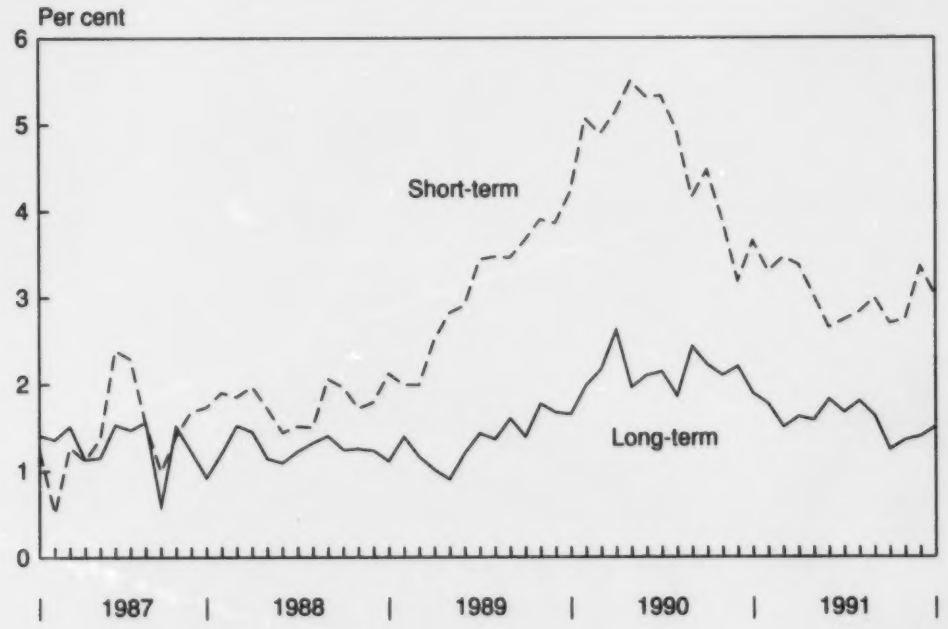
The weakness in the North American economy allowed interest rates to decline sharply during 1991. In addition, no wage-price spiral appeared as a result of the goods and services tax, and inflation declined steadily throughout the year. In the second half of 1991, the Canadian Consumer Price Index (CPI) advanced at an annual rate of only 1.7 per cent.

The interest rate on 90-day commercial paper fell from nearly 11 per cent early in 1991 to just over 7 per cent in February 1992. Long-term interest rates also declined, falling from over 10 per cent at the beginning of 1991 to under 9 per cent in February 1992. Despite these declines, real interest rates remain high.

In addition, the spread between Canadian and U.S. interest rates narrowed. The differential on short-term commercial paper declined from 5.5 per cent to 2.7 per cent. The long-term differential returned to just over one percentage point, the level that prevailed through most of the 1987-89 period.

The Canadian dollar defied conventional wisdom in 1991, continuing to appreciate as interest rate spreads narrowed. The dollar peaked at just above 89 U.S. cents in November and since then has fallen considerably. In early March it stood at 83.5 U.S. cents.

CHART A3
CANADA-U.S. INTEREST RATE DIFFERENTIALS



Source: Bank of Canada, Citicorp

Recently, the sentiment in financial markets has shifted. Interest rates in Canada have risen slightly, reflecting nervousness about Canadian constitutional developments. The outlook is for interest rates to change very little, on average, from current levels during the balance of the year. There could be more volatility in interest rates and the dollar during the second half of the year, as financial markets focus on Quebec's October deadline for achieving a constitutional consensus.

The British Columbia Economy

Overview

Economic conditions in British Columbia deteriorated in 1991 compared to 1990, although the province's economy performed better than other parts of the country. Real GDP declined an estimated 0.5 per cent. Employment was up while it fell in the rest of Canada.

British Columbia depends on markets in the rest of North America, Asia and Europe. As a result, there has been some concern that the recession in Canada and the United States and the recent slowdown in Japan and Germany makes inevitable a major downturn in this province. There are several reasons why British Columbia has escaped the worst effects of the North American recession and why a deeper downturn is unlikely.

First, in the early 1980s, the economy underwent the kind of wrenching adjustments now taking place in other parts of North America. Companies closed large amounts of out-dated capacity and thousands of jobs were eliminated on the production floor and in middle management. When the world economy and export markets picked up in the mid-1980s, companies made large investments in state-of-the-art production technology.

Second, British Columbia's markets and its economy are more diversified than during the last major recession, with 43 per cent of exports going to the United States, 27 per cent to Japan, 11 per cent to other Pacific Rim countries and 15 per cent to Europe. As a result, the province is now less exposed to adverse developments in any single country or product market. In contrast, Ontario is heavily dependent on exports of automotive products to a single market, the United States.

Finally, the 1990-91 downturn in British Columbia could be characterized as a "profits recession". Lower export prices reduced profits and capital investment but did not translate into deep cuts in employment or production levels, in contrast to more severe recessions in the past.

1991 in Review

As in the rest of North America, the last quarter of 1990 and the first quarter of 1991 represent the trough of the 1990-91 recession.

- Employment in the province declined for two consecutive quarters by a total of 9,000 jobs.
- Retail sales fell sharply after the goods and services tax was introduced on January 1, 1991.
- Housing starts bottomed in January 1991.

However, the downturn in the economy was brief and shallow due to continued high levels of in-migration and declining interest rates. In the second quarter, housing starts rose by 8,000 to an annualized 29,000 units and employment rose by 21,000 persons, a 5.8 per cent annual growth rate. Retail sales were up 10.9 per cent in the second quarter (annualized) from their depressed first quarter levels.

Some indicators slowed in the third quarter. Employment was up only slightly and retail sales growth fell to 4.1 per cent (annualized). However, housing starts rose once again to an annual rate of 36,000. This mixed pattern continued in the fourth quarter as employment rose 4.2 per cent at annual rates, housing starts increased to 39,000 and retail sales fell 5.5 per cent.

The weakest part of the province's economy in 1991 was the export sector. British Columbia is an important world producer of forest, mineral and metal and energy products. Consequently, demand and prices for these products play a key role in the health of the province's economy and many of its small towns.

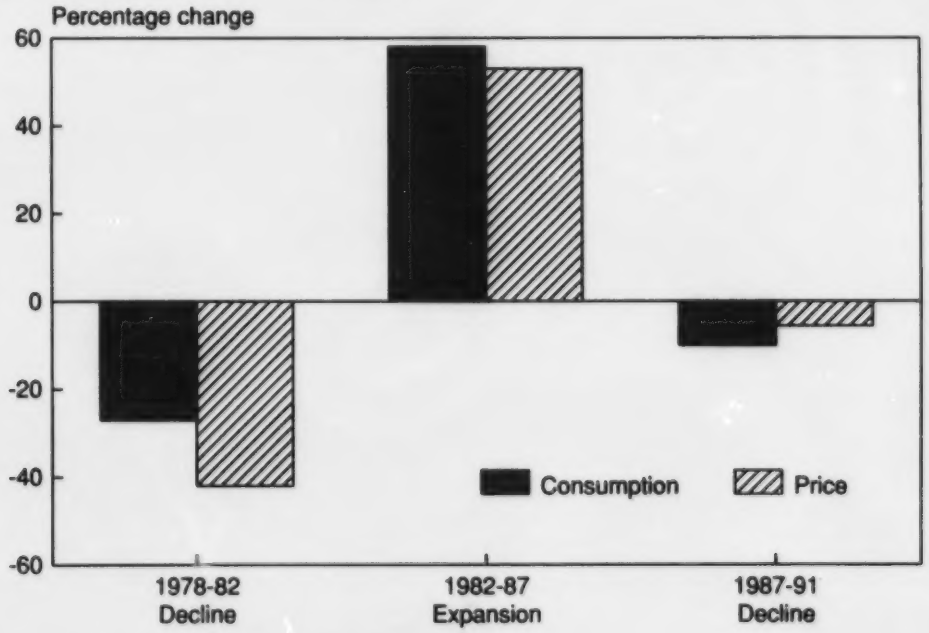
Poor markets for natural resources caused the British Columbia export commodity price index to fall an estimated 13 per cent in 1991. As a result, the total value of exports was down 8.9 per cent during the first 11 months of the year. As total export value fell less than the commodity price index, export volumes increased. This is one reason why the export slump has not translated into the extensive job losses seen in past recessions.

The value of manufacturing shipments, which also reflects the slump in exports, fell 6.8 per cent in 1991. However, in December 1991 shipments were only 0.6 per cent below their year-earlier level, reflecting a pickup in shipments of wood, fabricated metals and food and beverages.

Not surprisingly, capital spending declined 4.0 per cent in 1991, close to the decline of 3.2 per cent that had been projected in Statistics Canada's Private and Public Investment Intentions survey in March 1991. While construction investment held up, the decline was centred in machinery and equipment investment, which fell 11 per cent. Much of this was due to the completion of capital projects in the forest sector.

In the forest products sector, the downturn in prices and consumption of lumber has been less severe than during the market cycle that preceded the 1981-82 recession (see Chart A4).

CHART A4
U.S. SOFTWOOD LUMBER CYCLES



Source: Resource Information Systems, Inc.

Recently, rising home sales and housing starts in the United States and an impending U.S. countervailing duty on Canadian lumber imports combined to push lumber prices over $250 U.S. per thousand board feet.

REGIONAL ECONOMIC DEVELOPMENTS

The drop in resource prices and decline in exports that slowed the pace of provincial economic activity in 1991 has meant that certain areas of the province have suffered more than others.

While certain small communities have been hit hard by the shutdown of a mill or a mine, the province's major urban areas and most of the major regional cities and towns have fared reasonably well. Key indicators such as employment, unemployment rates, housing starts and changes in population provide some evidence on regional economic conditions. These economic indicators suggest that some regional economies may be doing as well or better than the major urban areas of the province.

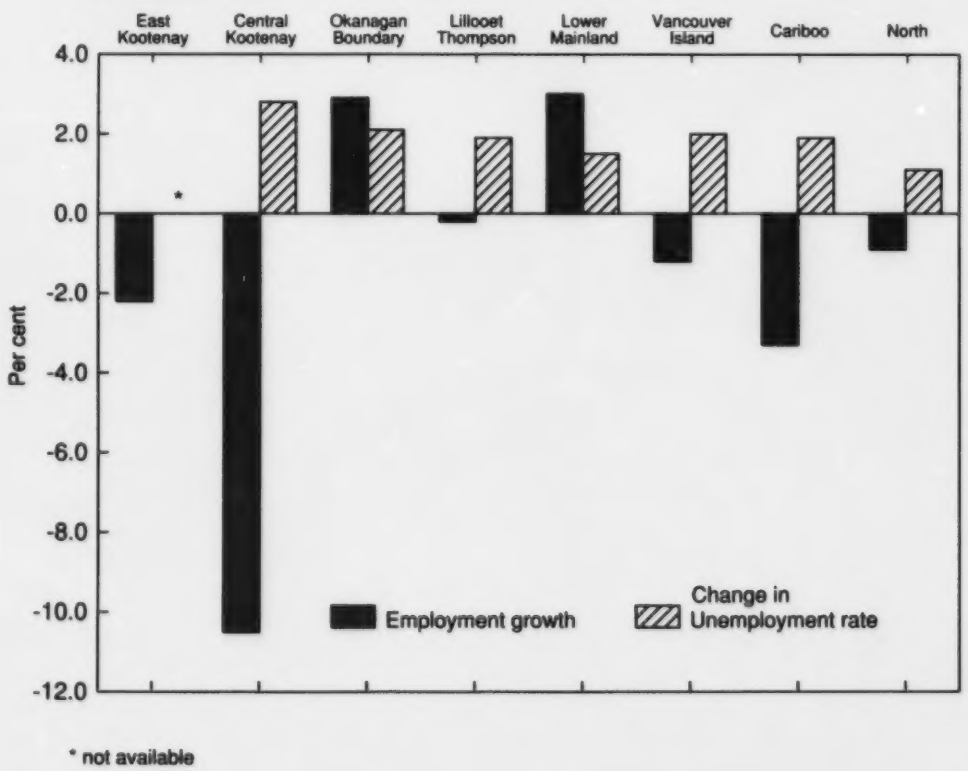
Employment and Unemployment

The best available measure of regional economic performance is employment growth. Most regions of the province experienced strong employment growth during the 1987 to 1989 period as rising commodity prices, capital investment and in-migration drove overall growth in the provincial economy. In late 1990, however, employment growth diverged, with job growth only *slowing* in Vancouver and Victoria while the rest of the province experienced a *contraction* in employment.

For example, employment grew 2.9 per cent in the Vancouver and Victoria metropolitan areas in 1991 following growth of 3.8 per cent in 1990. Employment in all other areas of the province fell 1.4 per cent in 1991 after an increase of 1.2 per cent in 1990.

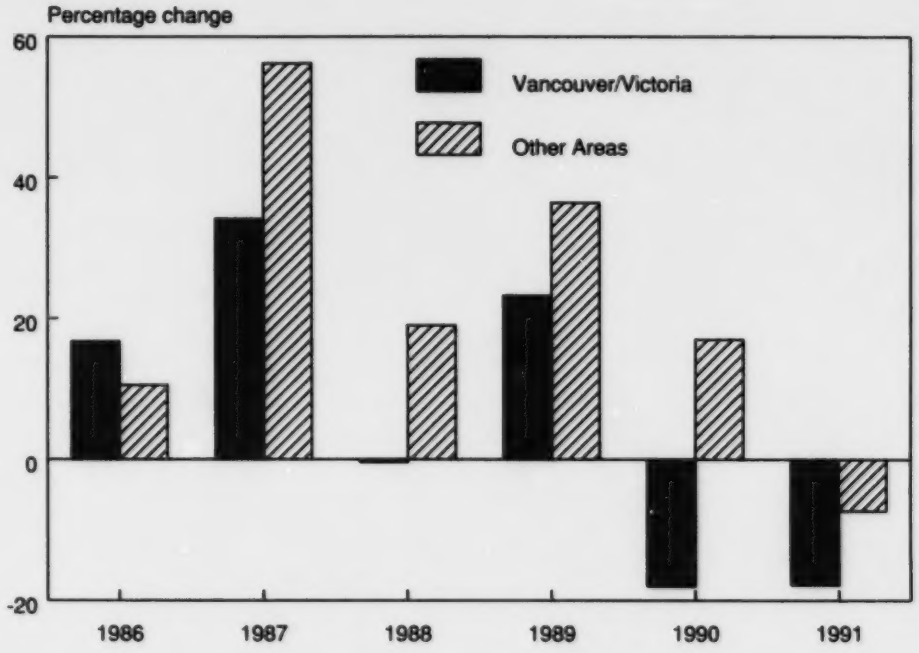
Unemployment rates also give an indication of the relative health of regional economies. However, it is important to note that resource-dependent regions tend to have higher unemployment rates than the two major cities, even when the resource industries are booming. This reflects the impact of changes in regional labour forces: workers are attracted to the regions during periods of strong growth, helping to dampen changes in regional unemployment rates.

REGIONAL LABOUR MARKETS IN 1991



* not available

BRITISH COLUMBIA HOUSING STARTS



Recent changes in unemployment rates reflect the healthier state of the Vancouver and Victoria economies. The unemployment rate for Greater Vancouver rose 1.5 percentage points to average 8.4 per cent in 1991, while the Greater Victoria unemployment rate rose 0.4 percentage points to 8.1 per cent. The unemployment rate in the rest of the province jumped 2.1 percentage points to average 12.3 per cent during 1991.

Housing Starts

The pattern of housing starts is another measure of regional economic performance. In every year since 1986, housing starts grew faster outside the two major metropolitan centres. Housing starts in the Vancouver and Victoria metropolitan areas fell approximately 18 per cent in both 1990 and 1991. In other areas of the province, housing starts fell 7.3 per cent in 1991 after increasing 17 per cent in 1990.

The stronger performance outside the two major metropolitan areas reflects growth in regional centres such as Nanaimo and Kelowna. These cities have developed more diversified economies and have experienced rapid population growth in recent years, helping offset the negative impact of declines in resource production.

Population

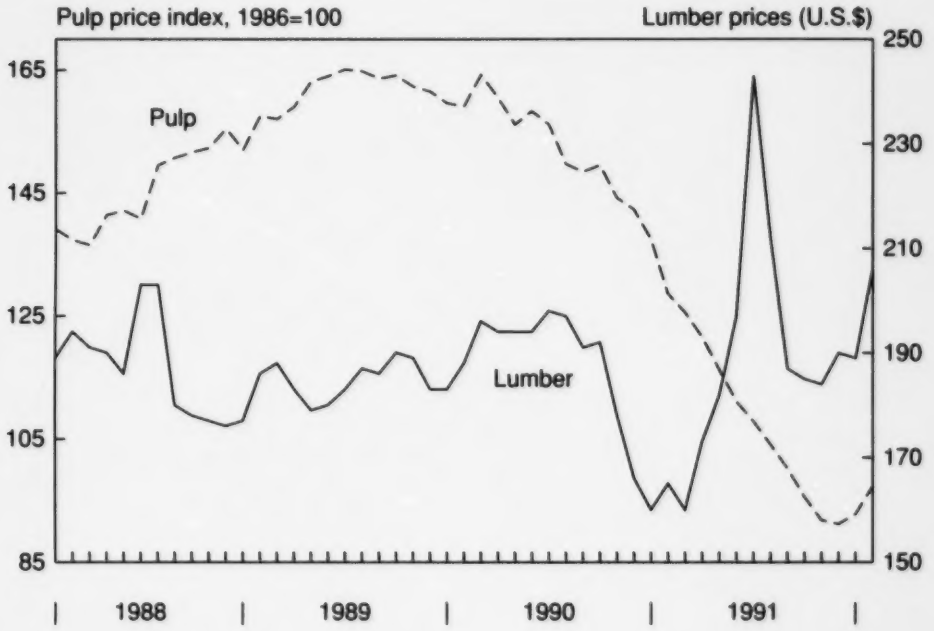
British Columbia has recorded strong population growth in recent years, largely due to in-migration from other provinces and countries. The population grew 2.7 per cent in 1991 with net in-migration accounting for over 70 per cent of the increase. This growth has had a varied impact on the province's regions.

The largest absolute increases in population have occurred in metropolitan Vancouver and Victoria, where growth was 2.7 per cent in 1990 and 1991. The rest of the province has also received a significant proportion of the people moving to the province. As a result, population in the rest of the province grew 2.9 per cent in 1990 and 2.8 per cent in 1991, similar to growth in the southwest corner of British Columbia.

Growth in some regions has been due to an inflow of retirees or people relocating in hope of finding employment when they arrive. Other regions are only just being discovered by in-migrants and have not become "hot spots" like Victoria, Vancouver, the east coast of Vancouver Island or the Okanagan. In some cases, these regions are attracting people who are escaping the pace of life in large cities. New technology now makes it possible for these urban refugees to run a business almost anywhere in the province.

In 1991, pulp prices averaged $572 U.S. per tonne, down sharply from $812 in 1990. On February 25, 1992, four Canadian producers announced that list prices would increase $40 per tonne to $580 on April 1. These moves suggest that demand for pulp is starting to rise. Nevertheless, prices are unlikely to return soon to the peaks reached in 1989.

CHART A5
FOREST PRODUCT PRICES



Source: Statistics Canada & Madison's Lumber Reporter

Newsprint prices averaged $500 U.S. per tonne in 1991 compared to $700 in 1990. Currently newsprint sells on the U.S. West Coast for around $450 per tonne. Demand and prices are expected to remain weak in 1992 due to excess capacity and the continuing shift away from print advertising. Increased demand for newsprint with recycled content will put added pressure on British Columbia producers.

The 1990-91 recession also reduced the demand for metals and minerals. Copper prices averaged $1.22 Cdn. per pound in 1991, down 13.5 per cent from $1.41 in 1990. Lead and zinc prices fell even more sharply, reflecting weakness in the automotive industry, a major user of these metals. Aluminum prices also fell from over $1 in 1991 to 60 cents after aircraft orders peaked. Demand for most metals is expected to increase with the gradual improvement in economic conditions in the major industrial countries, but prices are unlikely to rise significantly.

Energy prices declined in 1991, after having risen sharply following the invasion of Kuwait by Iraq in August 1990. The coal, crude oil and natural gas component of Statistics Canada's raw materials price index fell 33.6 per cent from its peak in November 1990 to November 1991. The prices of energy commodities are unlikely to rise significantly in 1992, as abundant supplies of oil, natural gas and coal are available.

TABLE A1
BRITISH COLUMBIA ECONOMIC INDICATORS

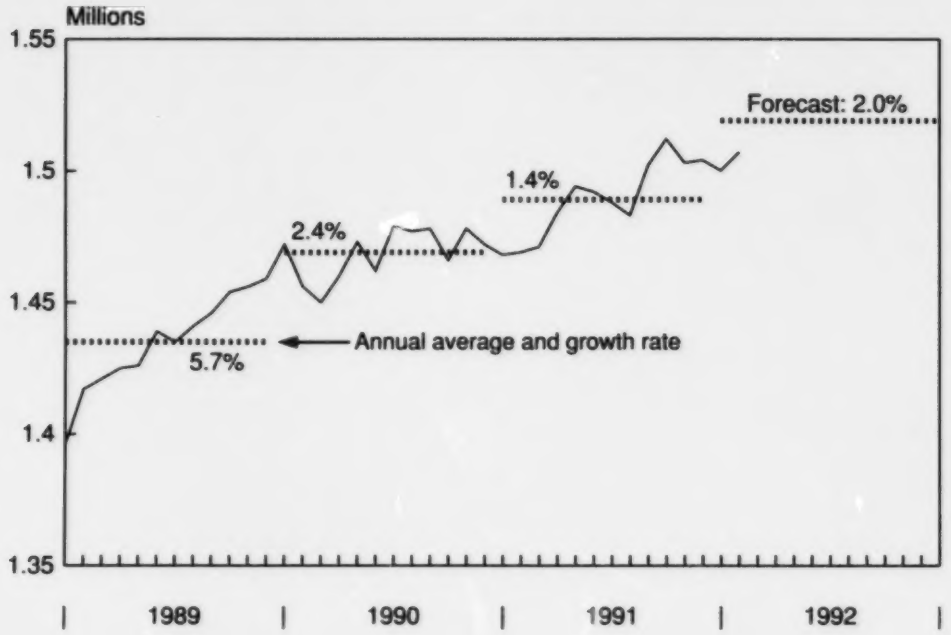
	1990	1991	1992[f]	1993[f]
Gross Domestic Product ($ millions)	80,706	83,500[e]	88,200	92,900
(percentage change)	4.9	3.5	5.6	5.3
Real Gross Domestic Product (millions of 1986 dollars)	68,019	67,700[e]	69,700	71,800
(percentage change)	2.9	−0.5	3.0	3.0
New Capital Investment ($ millions)	17,202	16,514	17,500	19,250
(percentage change)	8.0	−4.0	6.0	10.0
Housing Starts (units)	36,720	31,875	32,000	32,500
(percentage change)	−5.6	−13.2	0.4	1.6
Retail Sales ($ millions)	24,459	23,726	24,910	26,160
(percentage change)	6.2	*	5.0	5.0
Consumer Price Index (1986=100)	117.6	123.8	126.5	129.4
(percentage change)	5.5	5.3	2.2	2.3
Population, 15 Years and Over (thousands)	2,425	2,488	2,550	2,611
(percentage change)	2.6	2.6	2.5	2.4
Labour Force (thousands)	1,601	1,652	1,690	1,726
(percentage change)	1.5	3.2	2.3	2.1
Employment (thousands)	1,469	1,489	1,519	1,553
(percentage change)	2.4	1.4	2.0	2.2
Unemployment Rate (per cent)	8.3	9.9	10.1	10.0
Other Forecasts of Real Gross Domestic Product:		percentage change		
British Columbia Central Credit Union (March 1992)	—	0.0	1.9	3.5
Bank of Nova Scotia (February 1992)	—	0.5	2.2	n.a.
Royal Bank of Canada (December 1991)	—	−1.0	3.5	4.0
Toronto-Dominion Bank (March 1992)	—	1.7	2.5	4.6
Conference Board of Canada (February 1992)	—	−0.5	3.4	2.9
WEFA Canada (November 1991)	—	−0.1	3.6	2.3
Informetrica (February 1992)	—	−0.9	3.1	3.0

[e] Ministry of Finance and Corporate Relations estimate.
[f] Forecast.
* Retail sales are estimated to have increased 1 per cent compared to 1990 data adjusted for the federal sales tax.

British Columbia Economic Outlook

The British Columbia economy is forecast to grow 3 per cent in 1992, after a 0.5 per cent decline in 1991. Growth in 1992 will be largely driven by consumer spending and housing investment. Net exports, on the other hand, will decline in 1992 as modest growth in exports is expected to be offset by faster growth in imports. In addition, government spending and investment will not contribute as much to overall growth as in previous years.

CHART A6
BRITISH COLUMBIA EMPLOYMENT



Source: Ministry of Finance & Corporate Relations

Consumer confidence is expected to improve in 1992 as employment growth increases and inflation and interest rates remain at low levels. This will help increase consumer spending and housing starts. Employment is expected to increase 2 per cent which, with the labour force growing 2.3 per cent, will result in the unemployment rate rising from 9.9 per cent in 1991 to 10.1 per cent in 1992.

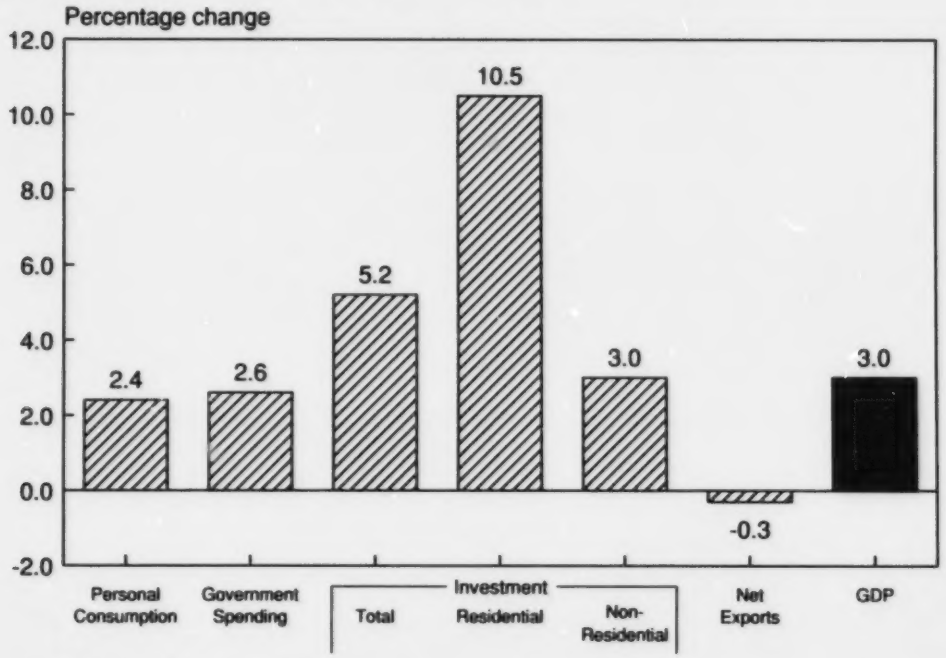
British Columbia personal income, a major driver of consumer spending, is expected to increase 4.3 per cent in 1992 due to higher employment. With inflation expected to average 2.2 per cent in 1992, real personal income is projected to grow 2.1 per cent in 1992, compared to a decline of 0.1 per cent in 1991. Combined with lower interest rates, this should help raise expenditures on interest-sensitive big-ticket items such as automobiles, furniture and appliances.

Investment is expected to increase 5.2 per cent in real terms in 1992 with a large increase in residential investment offsetting slower growth in non-residential and public sector investment. While housing starts are expected to increase only slightly to 32,000 units in 1992, most of the impact of the large number of starts at the end of 1991 will occur in 1992. Residential investment will also be supported by continued high rates of in-migration to British Columbia, low interest rates and federal programs to stimulate house purchases. Depending on the availability of land in major urban areas, housing starts could well be higher than this forecast. For example, Canada Mortgage and Housing Corporation projects 39,500 starts in 1992.

Non-residential investment is expected to rise 3 per cent in 1992 with construction pausing after significant increases in the supply of office and commercial space in recent years. Nevertheless, the overall supply/demand situation for commercial real estate remains more favourable in British Columbia than in most areas of North America.

Deficit control efforts by governments at all levels will reduce the contribution of public sector spending and investment to overall growth in 1992. Growth in operating and capital expenditures by federal, provincial and local governments is expected to moderate in 1992 as all governments adjust to slow revenue growth.

CHART A7
COMPONENTS OF REAL GDP GROWTH - 1992



Source: Ministry of Finance & Corporate Relations

The pickup in North American economic activity in the second half of 1992 is expected to revive demand for the province's resource exports. The volume of exports is expected to increase 2.8 per cent in 1992, led by overseas shipments of manufactured forest products. However, increased imports of consumer products and capital goods will more than offset the rise in exports.

Both the goods and services-producing industries are projected to contribute to overall growth in 1992. Service-producing industries, which account for about three-quarters of provincial GDP, are projected to grow 3.4 per cent in 1992 after expanding only 0.4 per cent in 1991. The goods-producing industries are projected to grow 1.7 per cent in 1992

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following a 2.6 per cent contraction in 1991. The construction industry will lead the expansion in goods production, reflecting increased residential construction. The province's manufacturing sector is also expected to rebound in 1992, due to gradually rising demand for key export commodities such as wood and pulp.

Inflation is forecast to remain low in 1992, reflecting moderate economic growth and the Bank of Canada's continuing efforts to contain price increases. The British Columbia CPI is expected to increase 2.2 per cent in 1992.

The province's bargaining calendar is relatively light in 1992. While the number of major contracts expiring is down only slightly, from 468 in 1991 to 452 in 1992, the number of employees covered by expiring contracts has fallen by almost half, from over 255,000 in 1991 to 131,200 in 1992. However, some major contract negotiations started in 1991 remain unresolved and have carried over into 1992, adding to this year's bargaining activity. Wage settlements negotiated in 1992 are expected to reflect the lower rate of inflation and the moderate pace of economic activity.

Risks to the Outlook

Economic forecasts for British Columbia depend heavily on assumptions about interest rates, exchange rates and growth in the rest of Canada and in other countries.

The assumptions used in this forecast for growth in the United States and Canadian economies are lower than consensus forecasts. If the consensus is right, provincial growth should be higher than forecast. As the forecast was being completed, there were signs that the U.S. economy was strengthening.

On the other hand, there are a number of risks that have not been explicitly factored into the outlook. In particular, these factors relate to Canada's economic and political situation and their impact on interest rates and the Canadian dollar:

- Growing concern in international financial markets about the Canadian unity question as Quebec's October referendum deadline approaches;
- Concerns about the fiscal position of the government sector in Canada;
- Questions about Canada's competitive position in the world economy; and
- Growing protectionism, particularly in the United States.

The net effect of these factors in recent weeks has been to push up interest rates and push down the value of the Canadian dollar. A lower dollar would help exporters, but if interest rates continue to increase, an already-sluggish Canadian recovery could be aborted.

Fiscal Review and Outlook

Review of 1991/92

British Columbia's fiscal situation is closely linked to the performance of the provincial economy. During 1991/92, weakness in certain areas of the economy, an unfavourable Supreme Court of Canada decision, and recommendations from the Independent Financial Review[1] caused revenue of the Consolidated Revenue Fund to be $528 million below the 1991 budget estimate (see Table B1).

TABLE B1
OPERATING TRANSACTIONS
CONSOLIDATED REVENUE FUND[1]

	Estimate 1991/92[2]	Revised Forecast 1991/92[2]
	($ millions)	
Operating Transactions:		
Revenue	15,352.5	14,825.0
Expenditure	16,545.0	17,169.0
Surplus (Deficit)	(1,192.5)	(2,344.0)

[1] Includes all special accounts and funds.
[2] Restated to conform to the *1992/93 Estimates*.

Provincial government expenditure is estimated to be $624 million above budget for the year. The revised forecast includes a number of adjustments resulting from the recent report of the Independent Financial Review.

As a result, the Consolidated Revenue Fund is projected to have a deficit of $2,344 million. This is $1,152 million higher than estimated in the 1991 budget.

The provincial government's financial requirements increased during 1991/92 due to the higher deficit, which was partly offset by financing and working capital transactions. Provincial government direct debt will increase $1,732 million by year end, up $470 million from budget (see Table B2).

[1] On November 14, 1991, the government commissioned an independent review of the province's finances to provide an assessment of the current and projected fiscal situation. The reports of the Independent Financial Review were publicly released beginning February 27, 1992, with the summary report issued on March 11, 1992.

Revenue

Consolidated Revenue Fund revenue totalled $14,825 million in 1991/92, up 3.4 per cent from 1990/91, but 3.4 per cent lower than the original budget estimate (see Table B3).

Taxation revenue of $9,235 million was down $200 million or 2.1 per cent from budget. Slower growth in the national personal income tax base led to lower-than-expected personal income tax collections. Corporation income tax revenue declined 14.8 per cent, reflecting an estimated 30 per cent drop in national corporate profits in 1991, partially offset by a higher-than-expected prior year adjustment in respect of the 1990 tax year.

Social service tax revenue was 4.6 per cent below budget and 2.5 per cent lower than the previous year. This resulted from slower growth in retail sales and business investment spending, partly related to the introduction of the federal goods and services tax in January 1991. Property tax revenues were 3.5 per cent over budget mainly due to the impact in 1991/92 of changes to the home owner grant and increases to business school-purpose tax rates effective January 1, 1992.

Other tax revenues increased 2.6 per cent, mainly reflecting increased revenue from property purchase and insurance premium taxes, which offset lower tobacco tax revenue. Property purchase tax revenue increased 20 per cent from budget because of higher real estate sales due to lower interest rates and continued in-migration. A larger-than-expected decline in sales volumes resulted in a 6.5 per cent drop in tobacco tax revenue, compared to budget.

Natural resource revenue of $1,114 million was down $108 million or 8.8 per cent from the original estimate. Weak mineral and natural gas prices resulted in lower revenues from minerals and from sales of drilling rights to Crown lands. Forests revenue was down 6.7 per cent from budget due to lower timber sales volumes and declines in forest sector profits.

Other revenue of $1,843 million was 4.1 per cent higher than budget, due to increased revenues from Medical Services Plan premiums, land registry fees, Crown land sales and investments.

Contributions from government enterprises totalled $538 million, down $102 million or 15.9 per cent from budget due to lower dividends from British Columbia Hydro and Power Authority (B.C. Hydro) and British Columbia Buildings Corporation. Dividends from B.C. Hydro are expected to be $85 million below budget. Revenue was lower-than-expected, and the Independent Financial Review has noted that dividends should be reduced to recognize deferred maintenance as identified by B.C. Hydro management.

Contributions from the federal government were down $190 million or 8.3 per cent from budget. Most of the decline reflects a $148-million shortfall in Canada Assistance Plan (CAP) revenues due to the August 1991 decision of the Supreme Court of Canada, which upheld the federal government's 5 per cent limit on growth in CAP contributions to the province.

Expenditure

In 1991/92, expenditure of the Consolidated Revenue Fund is forecast at $17,169 million, up 3.8 per cent from budget and 14.0 per cent higher than in 1990/91 (see Table B4). Just over half of the $624 million increase from budget is due to accounting valuation adjustments resulting from the Independent Financial Review. These relate to the write-off of loans and accounts receivable.

Ministry of Finance and Corporate Relations spending is $119 million above budget mainly because of increased allowances for doubtful loans and investments, and expenditures related to the Teachers' Investment and Housing Co-op.

Expenditure of the Ministry of Economic Development, Small Business and Trade is $96 million above budget mainly because of increased allowances for doubtful loans, guarantees and investments.

Spending by the Ministry of Attorney General is $90 million above budget due to higher expenditures for flood relief, the October 1991 provincial election and increased program utilization.

Ministry of Social Services expenditure is $82 million above budget due to higher spending for income assistance. For the first 10 months of 1991/92, the number of income assistance cases was up almost 18 per cent from the same period last year.

Ministry of Health expenditure of $5,526 million is $55 million higher than budget because of higher spending on the Medical Services Plan and Pharmacare.

Expenditure of the Ministry of Advanced Education, Training and Technology is $55 million above budget mainly because of increased allowances for doubtful student loans.

Other valuation adjustments of $84 million include allowances for accounts receivable as recommended by the Independent Financial Review. These include taxes, natural resource and fines revenue.

Other major spending variances from budget include $30 million of assistance to tree fruit producers paid by the Ministry of Agriculture, Fisheries and Food, South Moresby Park forestry compensation (up $29 million), and debt interest expense (up $25 million).

1992/93 Fiscal Plan

Table B1 summarizes the operating transactions of the Consolidated Revenue Fund, which includes the General Fund, British Columbia Endowment Fund and Natural Resource Community Fund. The British Columbia Endowment Fund has been created as a new perpetual fund with a special focus on the British Columbia economy. The assets of the former Privatization Benefits Fund will be transferred to the fund effective April 1, 1992. The government has also established the Natural Resource Community Fund to provide a stable source of funding to deal with problems facing resource-dependent communities.

Operating revenue for 1992/93 is estimated at $16,191 million, an increase of 9.2 per cent from the 1991/92 revised forecast. This includes $682 million in revenue measures introduced in the 1992 budget.

Operating expenditure for 1992/93 is estimated at $17,980 million, an increase of 4.7 per cent from the 1991/92 revised forecast. Excluding the effect of one-time valuation adjustments included in 1991/92, expenditure in 1992/93 is estimated to increase 6.8 per cent.

The Consolidated Revenue Fund deficit is estimated at $1,789 million. This is $555 million lower than the revised forecast for 1991/92.

The government's financial requirements include the Consolidated Revenue Fund deficit of $1,789 million and net disbursements of $33 million from financing and working capital transactions (see Table B2).

During 1992/93, the provincial government will increase direct debt by $1,842 million to meet these financial requirements and raise its cash balances by a small amount.

TABLE B2

THE FINANCING PLAN
CONSOLIDATED REVENUE FUND

	Estimate 1991/92[1]	Revised Forecast 1991/92[1]
	($ millions)	
Consolidated Revenue Fund Surplus (Deficit)[2]	(1,192.5)	(2,344.0)
Net Sources (Requirements) from Financing and Working Capital Transactions[3]	(149.5)	536.3
Decrease (Increase) in Cash and Short Term Investments	80.0	75.6
Net (Increase) Decrease in Provincial Government Direct Debt[4]	(1,262.0)	(1,732.1)

[1] Restated to conform to the *1992/93 Estimates*.

[2] Includes all special accounts and funds.

[3] Financing and working capital transactions represent either a source or use of funds, such as the payment or collection of loans and accounts payable/receivable, or non-cash transactions including allowances for doubtful accounts. They do not cause a change in the annual surplus (deficit) but only a change in the composition of the provincial government's assets and liabilities.

[4] Includes direct debt incurred for government operating purposes and does not include debt incurred by, or on behalf of, Crown corporations and agencies.

1992/93 Revenue

Revenue of the Consolidated Revenue Fund for 1992/93 is estimated at $16,191 million, an increase of 9.2 per cent from the revised forecast for 1991/92. The revenue estimate includes the impact of measures introduced in the 1992 budget, which are expected to increase revenue by $682 million in 1992/93.

Taxation revenue, the largest source of provincial government revenue, is expected to total $10,363 million in 1992/93, up 12.2 per cent from the 1991/92 revised forecast (see Table B3). Personal income tax revenue is expected to increase by 9.9 per cent to $4,712 million as a result of growth in personal incomes and the effect of tax rate changes announced in the budget. Corporation income tax revenue is estimated at $602 million, a rise of 4.9 per cent due to increases to the general and small business rates introduced in the budget.

Social service tax revenue, estimated at $2,109 million, is expected to increase by 7.6 per cent due to expected growth in consumer spending and the effect of applying the tax to legal services and non-voice telecommunications. Property tax revenue is expected to increase 12.8 per cent in 1992/93, due to the effect of rate increases announced in the budget and the elimination of the supplemental home owner grant.

Tobacco tax revenue is expected to increase 18.6 per cent due to the full-year impact of tax increases in 1991/92. Continued strength in real estate markets, due to lower interest rates and in-migration, is expected to cause an 11.1 per cent increase in property purchase tax revenues to $320 million. Revenue from insurance premium tax is expected to increase 16.2 per cent, mainly due to the full-year effect of increases in motor vehicle insurance premium rates introduced in January 1992.

Corporation capital tax revenue is estimated at $238 million. The forecast includes the effect of budget measures, which extend the tax to all large non-financial corporations, increase the tax

rate for large financial institutions and eliminate the crediting of corporation income tax payments against the capital tax.

Natural resource revenue is expected to increase by 10.2 per cent to $1,228 million. Revenue from petroleum, natural gas and minerals will increase by 4.0 per cent, due to higher natural gas and petroleum royalties, which offset lower proceeds from sales of drilling rights to Crown land. Forests revenue is expected to show an increase of 11.0 per cent as a result of an expected recovery in U.S. lumber demand. Water rental revenue is estimated to increase 14.7 per cent, due to rate increases introduced on January 1, 1992 and increased electricity generation in 1991/92.

Other revenue, estimated at $1,868 million, is expected to increase by 1.4 per cent. Medical Services Plan premium revenue is estimated to increase $35 million or 4.7 per cent, reflecting population growth and the full-year effect of premium rate increases introduced in July 1991.

TABLE B3
REVENUE BY SOURCE
CONSOLIDATED REVENUE FUND

	Estimate 1991/92[1]	Revised Forecast 1991/92[1]	[redacted]	Increase (Decrease)[2]
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	4,347.0	4,287.0	[redacted]	9.9
Corporation income	674.0	574.0	[redacted]	4.9
Social service	2,055.0	1,960.0	[redacted]	7.6
Property	926.0	958.0	[redacted]	12.8
Fuel	542.0	542.0	[redacted]	7.9
Other	891.0	914.0	[redacted]	39.4
	9,435.0	9,235.0	[redacted]	12.2
Natural Resource Revenue:				
Petroleum, natural gas and minerals	318.0	248.0	[redacted]	4.0
Forests	642.0	599.0	[redacted]	11.0
Water and other	262.0	267.0	[redacted]	14.2
	1,222.0	1,114.0	[redacted]	10.2
Other Revenue	1,770.5	1,843.0	[redacted]	1.4
Contributions from Government Enterprises	640.0	538.0	[redacted]	24.0
Contributions from the Federal Government:				
Established Programs Financing	1,187.0	1,156.0	[redacted]	(5.2)
Canada Assistance Plan and other	1,098.0	939.0	[redacted]	3.2
	2,285.0	2,095.0	[redacted]	(1.4)
TOTAL REVENUE	15,352.5	14,825.0	[redacted]	9.2

[1] Restated to conform to the *1992/93 Estimates*.
[2] Percentage change between the 1991/92 revised forecast and 1992/93 estimate.

Revenue from fees, licences and fines will also rise due to volume and rate increases. Investment earnings are forecast to decline by $17 million mainly because of lower interest rates.

Contributions from government enterprises will total $667 million, up 24 per cent from 1991/92. Liquor Distribution Branch profits are expected to increase by 9.5 per cent, reflecting increased mark-ups as outlined in Appendix C. Dividends from British Columbia Hydro and Power Authority are forecast at $147 million, up from $60 million in 1991/92.

Contributions from the federal government are estimated at $2,065 million, a decline of 1.4 per cent from 1991/92. Federal cash payments for Established Programs Financing are expected to fall 5.2 per cent due to the continuing effect of federal transfer cutbacks. Recoveries under the Canada Assistance Plan will rise by the limit of 5 per cent, to $798 million, reflecting the federal government's ceiling on contributions. Other federal payments are expected to decline due to lower contributions expected for job training and flood relief.

1992/93 Expenditure

Expenditure of the Consolidated Revenue Fund is estimated at $17,980 million in 1992/93, an increase of $811 million or 4.7 per cent from the revised forecast for 1991/92 (see Table B4). Excluding the effect of over $300 million in one-time valuation adjustments in 1991/92, expenditure will increase 6.8 per cent from the 1991/92 revised forecast.

Ministry of Health spending is estimated to increase by $409 million to $5,936 million. Significant spending increases include $145 million for hospital programs, $53 million for the Medical Services Commission and Pharmacare programs, $86 million for continuing care services and $107 million for community and family health services. This includes the effect of an increase to the annual deductible for the universal Pharmacare Plan to $400 from the previous $375.

Ministry of Social Services expenditure is estimated at $2,365 million, an increase of $369 million from 1991/92. Spending will increase $252 million for programs for independence and by $61 million for community support services. Expenditure for services for families and children will increase $33 million.

Ministry of Education expenditure, estimated at $3,589 million, shows an increase of 9.1 per cent from the 1991/92 revised forecast. Contributions to school districts and for debt service and schools support are estimated to increase $295 million.

Spending by the Ministry of Advanced Education, Training and Technology is projected to total $1,302 million. Excluding the effect of one-time valuation adjustments for student loans in 1991/92, spending is expected to increase about 5 per cent. Advanced education programs, which include contributions to universities, colleges and institutes, will increase $41 million while student financial assistance will increase to $57 million.

Ministry of Transportation and Highways spending, estimated at $823 million, will decrease $146 million mainly due to lower highway construction activity in 1992/93.

Expenditure of the Ministry of Economic Development, Small Business and Trade will decrease 51 per cent because of the effect of almost $90 million in one-time valuation adjustments in 1991/92. Excluding the effect of these valuation adjustments, spending is expected to decrease 10.3 per cent.

Ministry of Municipal Affairs, Recreation and Housing spending will increase 9.2 per cent. Expenditure for housing programs will increase $20 million, while grants to municipalities and regional districts will increase by about $25 million.

Expenditure of the Ministry of Energy, Mines and Petroleum Resources will decrease by $30 million because of lower grant assistance requirements for Vancouver Island pipeline natural gas conversion.

Expenditure on Management of the Public Funds and Debt is estimated to rise to $795 million. This 23.4 per cent increase is due to higher borrowing requirements in 1991/92 and 1992/93.

TABLE B4
EXPENDITURE BY MINISTRY
CONSOLIDATED REVENUE FUND

	Estimate 1991/92[1]	Revised Forecast 1991/92[1]	[illegible]	Increase (Decrease)[2]
	($ millions)			(per cent)
Legislation	24.7	24.7	[illegible]	(5.3)
Auditor General	6.6	6.6	[illegible]	1.5
Commission on Resources and Environment	—	—	[illegible]	—
Conflict of Interest Commissioner	0.2	0.1	[illegible]	100.0
Ombudsman	3.2	3.2	[illegible]	12.5
Office of the Premier and Executive Council Operations	15.5	15.4	[illegible]	(9.1)
Aboriginal Affairs	9.9	10.8	[illegible]	47.2
Advanced Education, Training and Technology	1,244.3	1,299.2	[illegible]	0.2
Agriculture, Fisheries and Food	96.4	111.5	[illegible]	(16.1)
Attorney General	665.9	755.7	[illegible]	0.5
Economic Development, Small Business and Trade	95.4	191.0	[illegible]	(51.0)
Education	3,290.1	3,291.1	[illegible]	9.1
Energy, Mines and Petroleum Resources	67.0	72.6	[illegible]	(41.2)
Environment, Lands and Parks	223.6	229.3	[illegible]	5.4
Finance and Corporate Relations	387.9	506.8	[illegible]	(22.8)
Forests	622.2	620.7	[illegible]	0.6
Government Services	97.2	98.5	[illegible]	(5.9)
Health	5,471.0	5,526.4	[illegible]	7.4
Labour and Consumer Services	25.0	25.9	[illegible]	19.7
Municipal Affairs, Recreation and Housing	475.7	456.5	[illegible]	9.2
Social Services	1,913.1	1,995.5	[illegible]	18.5
Tourism	67.2	67.8	[illegible]	(10.5)
Transportation and Highways	983.6	969.6	[illegible]	(15.1)
Women's Equality	20.0	17.9	[illegible]	73.2
Other Appropriations:				
Management of Public Funds and Debt	619.0	644.0	[illegible]	23.4
Contingencies and New Programs	54.2	47.6	[illegible]	120.6
Sustainable Environment Fund	39.3	39.3	[illegible]	(41.5)
Other[3]	26.8	57.3	[illegible]	(76.4)
Other Valuation Adjustments[4]	—	84.0	[illegible]	(100.0)
TOTAL EXPENDITURE	16,545.0	17,169.0	[illegible]	4.7

[1] Restated to conform to the *1992/93 Estimates*.
[2] Percentage change between the 1991/92 revised forecast and the 1992/93 estimate.
[3] Includes the South Moresby Implementation-Forestry Compensation Special Account, the Government Accounting Systems Strategic Plan Vote, the Insurance and Risk Management Special Account and other appropriations.
[4] Allowances for accounts receivable including taxes, natural resource revenues and fines.

1992/93 Financing Plan

Gross borrowing for government purposes is estimated at $2,259 million in 1992/93. This will be partially offset by sinking fund contributions, sinking fund earnings and maturing debt totalling $417 million. As a result, net government direct debt is expected to increase by $1,842 million to $8,300 million (see Table B2).

Gross borrowing for Crown corporations and agencies is estimated at $1,949 million. This increase will be partially offset by repayment provisions resulting in net borrowing of $1,161 million in 1992/93. Other debt and guarantees are expected to increase $448 million. Details of the financing plan are provided in Appendix D.

Accumulated Deficit

At March 31, 1992, the accumulated deficit of the Consolidated Revenue Fund is expected to total $5,739 million (see Table B5).

At March 31, 1993, the accumulated deficit is estimated at $7,528 million, up $1,789 million from March 31, 1992. The accumulated deficit consists of:

- General Fund net deficiency, or accumulated deficit, of $8,086 million; less
- net equity of the British Columbia Endowment Fund of $542 million; and
- net equity of the Natural Resource Community Fund of $16 million.

TABLE B5

NET EQUITY AT YEAR END
CONSOLIDATED REVENUE FUND

	Budget 1991/92	Revised Forecast 1991/92
	($ millions)	
General Fund	(5,069.0)	(6,262.6)
British Columbia Endowment Fund[1]	519.0	523.6
Natural Resource Community Fund[2]	—	—
Consolidated Revenue Fund Accumulated Deficit	(4,550.0)	(5,739.0)

[1] Effective April 1, 1992, the Privatization Benefits Fund is reconstituted as the British Columbia Endowment Fund.
[2] The Natural Resource Community Fund is established effective April 1, 1992.

Revenue Measures

C1: Summary of Revenue Measures

	Effective Date	Revenue Effects 1992/93	Full Year
Income Tax Act		($ millions)	
■ British Columbia personal income tax rate increased from 51.5 per cent of Basic Federal Tax to 52.5 per cent, effective July 1, 1992, resulting in an annual rate of 52.0 per cent for 1992. The rate for 1993 will be 52.5 per cent	1992 tax year	60.0	86.0
■ British Columbia personal income tax surtax increased to 20 per cent of British Columbia income tax in excess of $5,300 plus 10 per cent of British Columbia income tax in excess of $9,000, effective, July 1, 1992. This results in an annual rate of 10 per cent of provincial income tax in excess of $5,300 plus 10 per cent of provincial income tax in excess of $9,000 for 1992	1992 tax year	87.0	133.0
■ Phase-out of the Renter's Tax Reduction delayed	1992 tax year	—	(5.0)
■ General corporate income tax rate increased to 16 per cent from 15 per cent and the small business rate increased to 10 per cent from 9 per cent	January 1, 1992	43.0	40.0
Corporation Capital Tax Act			
■ Tax base expanded to include all corporations with paid up capital of $1 million or more. The tax rate for large financial institutions increased from 2 per cent to 3 per cent and crediting of provincial corporate income tax eliminated. Tax rate of 1 per cent applied to other financial institutions and 0.3 per cent to all other corporations. Deduction for new investment introduced	April 1, 1992	225.0	225.0
Social Service Tax Act			
■ Sales tax of 6 per cent on legal services introduced	May 1, 1992	32.0	35.0
■ Sales tax of 6 per cent on non-voice telecommunications introduced	April 1, 1992	2.0	2.0

C1: Summary of Revenue Measures — *Continued*

	Effective Date	Revenue Effects 1992/93	Full Year
		($ millions)	
Motor Fuel Tax Act			
■ Tax indexing ended. Tax rates are now set as a specific amount per litre. The rate for unleaded gasoline is 10 cents per litre	April 1, 1992	—	—
■ Tax on jet fuel increased by 2 cents per litre to 5 cents per litre	April 1, 1992	16.0	16.0
■ Some methanol and ethanol fuels exempted from fuel tax, with a five year sunset clause	April 1, 1992	—	—
Tobacco Tax Act			
■ Tax indexing ended. Tax rates are set at $21 per carton of 200 cigarettes and 8 cents per gram of loose tobacco	March 27, 1992	—	—
Home Owner Grant Act			
■ Supplementary Home Owner Grant eliminated and basic grant increased by $20	1992 tax year	90.0	90.0
School Act			
■ School tax rates for non-residential properties increased by an average of 6 per cent	1992 tax year	35.0	35.0
Taxation (Rural Area) Act			
■ General purpose rural area tax rates increased by an average of 5 per cent	1992 tax year	2.0	2.0
Other Revenue			
■ Liquor Distribution Branch mark-ups increased by an average of 9.5 per cent	April 1, 1992	50.0	50.0
■ Various fees, licences and fines increased	Various	40.0	50.0
■ Administrative measures (see C2)	Various	(0.5)	(0.5)
Total		681.5	758.5

C1: Revenue Measures: Supplementary Information

INCOME TAX ACT

BASIC INCOME TAX RATE INCREASED

The British Columbia income tax rate, calculated as a percentage of basic federal tax, is increased by one percentage point to 52.5 per cent. With respect to the withholding of income tax from earnings, the increase is effective from July 1, 1992. As a result, the annual tax rate for the 1992 tax year will be 52 per cent. The rate will be 52.5 per cent for 1993, and withholding will continue at this rate.

PERSONAL INCOME TAX SURTAX INCREASED

The British Columbia income tax surtax will be increased to 20 per cent of tax in excess of $5,300 plus 10 per cent of income tax in excess of $9,000. With respect to the withholding of income tax from earnings, the increase is effective from July 1, 1992. The rate for 1991 was 10 per cent of British Columbia income tax in excess of $9,000.

TABLE 1
IMPACT OF PERSONAL INCOME TAX CHANGES FOR 1992

1992 TAXATION YEAR

Taxpayer Type/ Income	Total Federal and B.C. Income Taxes Before Changes[1]	Federal Surtax Reduction[2]	B.C. Basic PIT Increase	B.C. Surtax Increase	Net Change
$	$	$	$	$	$
Single					
10,000	530	(2)	2	—	—
20,000	3,122	(10)	10	—	—
30,000	5,347	(17)	17	—	—
40,000	8,568	(27)	27	—	—
50,000	12,434	(40)	40	—	—
60,000	16,136	(52)	52	6	6
80,000	24,456	(78)	78	278	278
100,000	33,152	(104)	104	562	562
150,000	56,736	(175)	175	1,305	1,305
Family of Four[3]					
10,000	—	—	—	—	—
20,000	1,135	(5)	—	—	(5)
30,000	3,313	(13)	13	—	—
40,000	6,911	(23)	23	—	—
50,000	11,061	(36)	36	—	—
60,000	14,645	(47)	47	—	—
80,000	22,750	(73)	73	73	73
100,000	31,274	(99)	99	474	474
150,000	54,826	(170)	170	1,100	1,100

[1] Based on basic personal credits and, at each income level, typical deductions (union dues, registered retirement savings plan and registered pension plan contributions and carrying charges). Does not include the impact of the federal refundable Goods and Services Tax (GST) and Child Tax credits. The maximum GST credit is $298 for a single person living alone in 1992. For a family of four the maximum GST credit is $596 and the refundable Child Tax Credit is $1,628. These credits are reduced by five per cent of net income above a threshold level, which is approximately $26,000. The child tax credits and Family Allowance will be replaced by the Child Tax Benefit in 1993.

[2] Federal surtax reduction is shown as proposed in the federal budget of February 25, 1992.

[3] Single income family, dependent spouse and two dependent children.

TABLE 2
IMPACT OF PERSONAL INCOME TAX CHANGES FOR 1993

1993 TAXATION YEAR

Taxpayer Type/ Income	Total Federal and B.C. Income Taxes Before Changes[1]	Federal Surtax Reduction[2]	B.C. Basic PIT Increase	B.C. Surtax Increase	Net Change
$	$	$	$	$	$
Single					
10,000	528	(10)	5	—	(5)
20,000	3,118	(40)	20	—	(20)
30,000	5,335	(68)	34	—	(34)
40,000	8,538	(109)	55	—	(54)
50,000	12,399	(158)	79	—	(79)
60,000	16,094	(206)	103	20	(83)
80,000	24,392	(310)	155	566	411
100,000	33,066	(415)	208	1,140	933
150,000	56,638	(698)	349	2,640	2,291
Family of Four[3]					
10,000	—	—	—	—	—
20,000	1,132	(22)	—	—	(22)
30,000	3,300	(50)	—	—	(50)
40,000	6,760	(91)	21	—	(70)
50,000	10,906	(140)	70	—	(70)
60,000	14,663	(187)	94	—	(93)
80,000	22,915	(292)	148	320	173
100,000	31,420	(397)	198	1,015	816
150,000	54,963	(680)	349	2,543	2,203

[1] Based on basic personal credits and, at each income level typical deductions (union dues, registered retirement savings plan and registered pension plan contributions, and carrying charges). Does not include the impact of the federal refundable Goods and Services Tax (GST) and Child Tax credits. The maximum GST credit will likely be $304 for a single person living alone in 1993. For a family of four the maximum GST credit will likely be $604. The Child Tax Credit and Family Allowance will be replaced in 1993 by the Child Tax Benefit, which could be up to $2,966 for the family of four. These credits are reduced by five per cent of net income above a threshold level, which is approximately $26,000.

[2] Federal surtax reduction is shown as proposed in the federal budget of February 25, 1992.

[3] Single income family, dependent spouse and two dependent children.

Because the increase with respect to tax withholding is effective July 1, the annual surtax rate for 1992 will be 10 per cent of British Columbia income tax in excess of $5,300 plus 10 per cent of British Columbia income tax in excess of $9,000. In 1993, the surtax will be 20 per cent of British Columbia income tax in excess of $5,300 plus 10 per cent of British Columbia income tax in excess of $9,000. The $50 per dependent non-refundable credit will continue. Generally, taxpayers with incomes under $60,000 per year will not pay the surtax, while those with incomes under $86,500 will not pay the second tier surtax. The second tier surtax will be calculated on the basis of tax owing before calculation of the first tier surtax.

Approximately 142,000 taxpayers will be subject to the surtax, equal to eight per cent of British Columbia income tax payers.

The following tables show the impact of the basic tax rate and surtax in 1992 and 1993 for a single tax filer and a family of four at different income levels.

RENTER'S TAX REDUCTION EXTENDED

The scheduled phase-out of the Renter's Tax Reduction is delayed one year. As a result, the full reduction will continue to be available for 1992. During 1992, the government will review this program and will examine alternative programs for assisting low-income working families who rent.

Renters are eligible for maximum tax deductions of $225 per family member for 1992. The deductions are reduced by three per cent of net family income in excess of $10,000 plus $4,000 for the first additional family member, $3,000 for the second, $2,000 for the third, and $1,000 for the fourth and each subsequent family member.

CORPORATE INCOME TAX RATE INCREASED

The general corporate income tax rate is increased from the current 15 per cent of taxable income to 16 per cent, effective January 1, 1992. The small business income tax rate is increased from the current nine per cent of taxable income to ten per cent, also effective January 1, 1992. All corporations with taxable income in British Columbia will be affected by these rate increases.

CORPORATION CAPITAL TAX ACT

The capital tax will apply to all corporations with a permanent establishment in British Columbia whose paid-up capital exceeds $1 million, effective April 1, 1992. The current corporation capital tax applies only to banks and trust companies with paid-up capital exceeding $500 million.

The capital tax rate for banks and trust companies with paid-up capital of more than $500 million will rise from the current two per cent per annum to three per cent per annum. In addition, the current provision which allows provincial income tax to be credited against a corporation's capital tax liability will be repealed.

Other banks, trust companies and credit unions will pay a one per cent capital tax. All other corporations will pay tax at a rate of 0.3 per cent.

Paid-up capital is defined as a company's share capital, retained earnings and indebtedness (including reserves) less certain current liabilities including wages and income taxes payable. Provisions for interrelated companies will prevent the same capital or debt from being taxed more than once. For companies also operating in other jurisdictions, the capital tax allocation will be based on the allocation rules used for income tax purposes.

Special definitions of paid-up capital will be used to define the tax base for banks, trust companies and credit unions, to reflect the distinct capital structures of these institutions.

In order to encourage new investment in the province, a deduction from the capital tax base will be allowed for the costs of acquiring specified new productive capital assets and certain other expenditures in British Columbia. The deduction will be available for:

- The cost of acquiring assets primarily intended for use in manufacturing and processing, or extracting natural resources in the province;
- Exploration and development expenditures incurred in British Columbia;
- Expenditure on scientific research in British Columbia; and
- Expenditure on certain new tourism facilities.

For a corporation's first two fiscal years following March 31, 1992, the deduction will be available for the year in which qualifying expenditures are made. In subsequent fiscal years, to increase the investment incentive, companies will be able to deduct the expenditures incurred in the current year plus those from the immediately preceding year.

The deduction will be available only to corporations paying the general 0.3 per cent rate.

The tax rate will be phased in for companies with paid-up capital between $1.0 million and $1.25 million. These provisions will ensure that corporations with small differences in paid-up capital will not pay widely varying amounts of capital tax.

Corporations with an estimated annual capital tax liability of over $3,000 will be required to pay quarterly instalments.

The capital tax will apply to certain provincial and federal Crown corporations including British Columbia Hydro, British Columbia Rail, Air Canada and Canadian National Railway.

SOCIAL SERVICE TAX ACT

APPLICATION OF PROVINCIAL SALES TAX TO LEGAL SERVICES

The six per cent provincial sales tax is imposed on purchases of legal services as described under the *Legal Profession Act* and under section 15 of the *Notaries Act*, effective May 1, 1992. Virtually all legal services with the exception of the purchase of legal aid services will be taxable. Examples of taxable legal services include:

- conveyancing services;
- preparation of wills;
- general corporate law;
- civil and criminal litigation; and
- personal injury law.

The tax is applicable to legal services performed after April 30, 1992. Where a purchase of legal services relates to taxable services performed both before and after April 30, 1992, tax is payable on that proportion of the services performed after April 30, 1992. Special transition rules apply to legal services provided before and after April 30, 1992 on a contingency fee basis. In specified circumstances, purchases of imported legal services will be taxable and exported legal services will be exempt.

APPLICATION OF PROVINCIAL SALES TAX TO TELECOMMUNICATION SERVICES

All telecommunication services, except basic residential telephone service and basic cable television service, will be subject to the provincial social service tax, effective April 1, 1992.

British Columbia's sales tax is currently imposed on all commercial telephone services, residential long distance telephone service (basic residential telephone service is exempt) and pay television services. However, the tax has not been imposed on non-voice telecommunication services such as facsimile transmissions. These services will now be subject to social service tax.

MOTOR FUEL TAX ACT

INDEXING REMOVED

Motor fuel tax rates will no longer be adjusted quarterly to reflect changes in the Vancouver consumer price index for gasoline.

Effective April 1, 1992, motor fuel tax rates are set at:

- 10 cents per litre for clear unleaded gasoline;
- 12 cents per litre for clear leaded gasoline;
- 10.5 cents per litre for clear diesel fuel;
- 3 cents per litre for marked gasoline, marked diesel, marine diesel, locomotive, aviation (excluding jet fuel), marked propane and butane.

The new rates equal the estimated average rates for the year if indexing had remained in place. For this reason, these rate increases will not raise additional revenues in 1992/93.

JET FUEL

The tax rate on jet fuel is increased to five cents per litre, two cents per litre higher than on aviation gasoline, effective April 1, 1992. Jet fuel is defined as fuel purchased for use in an aircraft powered by a turbine.

CLEANER TRANSPORTATION FUELS

Alcohol-based fuel purchased for use in a motor vehicle is exempt under the *Motor Fuel Tax Act*, effective April 1, 1992. Alcohol-based fuels are defined as fuels containing at least 85 per cent methanol or ethanol.

This provision, as well as the current exemption for natural gas and propane purchased for use in a motor vehicle, will be repealed at the end of five years on March 31, 1997.

After consultation with affected groups, legislation will be introduced to phase in the tax rates on these cleaner transportation fuels after March 31, 1997, so that ultimately the rates will be equal to the tax rate on regular unleaded gasoline on an energy equivalent basis.

TOBACCO TAX ACT

INDEXING REMOVED

Tobacco tax rates will no longer be adjusted semi-annually to reflect changes in the Vancouver consumer price index for cigarettes.

The tax rate on cigarettes will be set at $21.00 per carton of 200 cigarettes, and the rate on loose tobacco will be set at eight cents per gram, effective March 27, 1992. The new rates equal the estimated average rates for the year if indexing had remained in place. For this reason, these rate increases will not raise additional revenues in 1992/93.

HOME OWNER GRANT ACT

SUPPLEMENTARY HOME OWNER GRANT ELIMINATED

The Home Owner Grant supplement is eliminated for 1992 and subsequent years.

The supplement was available to homeowners who paid school property taxes in excess of the maximum basic Home Owner Grant for which they were eligible. The maximum Home Owner

Grant available to most homeowners was $430 in 1991, and for seniors, the handicapped, and recipients of war veterans allowances, it was $700.

The supplement was introduced in 1990 as 25 per cent of excess school property taxes. In 1991, it was increased to 50 per cent of these excess taxes. Supplements were generally received by homeowners who are not seniors and who own homes having relatively high assessed values.

BASIC GRANT INCREASED

The basic Home Owner Grant is increased for 1992 and subsequent years by $20 to $450 for most homeowners. For homeowners who are seniors, handicapped or recipients of war veterans allowances, the basic grant is increased for 1992 and subsequent years by $20 to $720.

SCHOOL ACT

School property tax rates for non-residential properties will be increased by an average of six per cent for 1992. These rates apply to the eight non-residential property classes, including industrial, business, and farm properties. Because there will not be an overall assessment roll update in 1992, property taxes will increase by roughly six per cent for most properties that were in the 1991 tax base. Specific rates for each property class will be set in April 1992.

TAXATION (RURAL AREA) ACT

General purpose property tax rates for all classes of properties in rural areas will be increased by an average of approximately five per cent for 1992. Because there will not be an overall assessment roll update in 1992, property owners will not experience tax increases as a result of changes to relative assessed values. Rates will increase by roughly three per cent for residential properties and by roughly six per cent for most non-residential properties. Specific rates will be set for each property class in April 1992.

OTHER REVENUES

LIQUOR DISTRIBUTION BRANCH CONTRIBUTION TO REVENUE

The Liquor Distribution Branch will adjust mark-ups, excluding draft beer, effective April 1, 1992, to increase projected revenue from liquor sales for fiscal 1992/93 by $50 million. As a result, 1992/93 Liquor Distribution Branch net income will be $43 million or 9.5 per cent over the 1991/92 revised forecast of net income.

FEES, LICENCES AND FINES

A number of fees, licences and fines will be increased during the fiscal year.

C2: Summary of Administrative Measures

	Effective Date
Income Tax Act	
■ Section of federal *Income Tax Act* referenced to define family income changed for purposes of Renter's Tax Reduction	1991 tax year
Social Service Tax Act	
■ Certain international and interprovincial aircraft and parts exempted from the sales tax retroactively	May 5, 1983
■ Exemption for jet powered aircraft introduced	April 1, 1992
■ Definition of mineral expanded to include dolomite for purposes of social service tax	April 1, 1992
■ List of items that can be purchased tax exempt by bona fide farmers expanded	April 15, 1992
■ List of items that can be purchased tax exempt by bona fide aquaculturists expanded	April 15, 1992
Motor Fuel Tax Act	
■ Definition of aviation fuel clarified as fuel specifically produced for use in aircraft	April 1, 1992
■ Definition of mineral expanded to include dolomite for purposes of motor fuel tax	April 1, 1992
■ Cap of $200 per year on fuel tax rebates for disabled persons increased to $300	August 1, 1991
Hotel Room Tax Act	
■ Regulation amended to provide maximum purchase price of $100 per night for purposes of hotel room tax calculation for accommodation sold only as part of a package with specialized services	April 15, 1992
■ Definition of accommodation amended to exempt cabins without utilities and other amenities	April 15, 1992
Insurance Premium Tax Act	
■ Tax rate applicable to insurance premiums paid to unauthorized (unlicensed) insurers increased to 7 per cent from 5 per cent	March 27, 1992

INCOME TAX ACT

CHANGE REFERENCE TO FAMILY INCOME IN FEDERAL *INCOME TAX ACT*

Under the Renter's Tax Reduction, the allowable credit is reduced as family income increases. Family income is determined by reference to section 122.4(3)(d) of the federal *Income Tax Act*. Parliament has repealed section 122.4(3)(d) of the federal act, effective for 1991 and subsequent taxation years, and replaced it with a new section, 122.5, for calculating family income. The Renter's Tax Reduction legislation will be amended to reflect this change. Renter's Tax Reduction recipients will not be affected by this change.

SOCIAL SERVICE TAX ACT

CERTAIN AIRCRAFT EXEMPTED FROM SALES TAX RETROACTIVELY

For the period May 5, 1983, to March 31, 1992, regularly scheduled international and interprovincial aircraft and qualifying charter aircraft which flew less than 80 per cent of their total hours in British Columbia airspace are exempted from the provincial sales tax on the purchase or lease of the aircraft and related aircraft parts.

EXEMPTION FOR JET POWERED AIRCRAFT INTRODUCED

Aircraft powered by turbine engines are exempt from the provincial sales tax, effective April 1, 1992. The parts for these aircraft will also be exempt.

TREATMENT OF DOLOMITE MINING

The definition of mineral is amended to include dolomite, effective April 1, 1992. This will allow dolomite mining operations to benefit from the sales tax exemption for explosive supplies which is currently available to other mineral mining operations.

SALES TAX EXEMPTIONS FOR BONA FIDE FARMERS EXPANDED

The following are added to the list of items that can be purchased exempt from provincial sales tax by bona fide farmers for farm purposes, effective April 15, 1992:

- deer fencing;
- plastic bale and silage bags;
- growing medium or rockwool;
- fertilizer mixers;
- pH electroconductivity meters;
- plastic clips and crop supports;
- crop handling carts; and
- seedling plug extractors.

SALES TAX EXEMPTIONS FOR BONA FIDE AQUACULTURISTS EXPANDED

The following are added to the list of items that can be purchased exempt from the provincial sales tax by bona fide aquaculturists for aquacultural purposes, effective April 15, 1992:

- net pen units;
- alarm equipment to signal changes in water conditions;
- anti-foulants;
- booms for lifting nets out of water;
- centrifuges;
- electric timing devices and controls for feeders and water flow;
- fish tagging machines and tags;
- float valves to regulate water pressure;
- disease identification and monitoring kits;
- kelp cleaning and processing machinery;
- minerals, medications and nutrients for fish;
- trays suspended from floats and used for growing oysters; and
- water conditioning and sterilizing equipment.

MOTOR FUEL TAX ACT

AVIATION FUEL DEFINITION CLARIFIED

The current aviation fuel definition is amended to ensure that only fuel specifically produced for use in an aircraft and used in an aircraft is subject to the aviation fuel tax rate.

TREATMENT OF DOLOMITE MINING

The definition of mineral is amended to include dolomite, effective April 1, 1992.

Mineral mines are allowed to use lower taxed coloured fuel in prescribed motor vehicles. Limestone mining operations are eligible for this tax concession, except when producing building or construction stone. Amending the definition of mineral to include dolomite establishes equitable treatment for dolomite and limestone mining operations.

MOTOR FUEL TAX REBATE PROGRAM FOR DISABLED PERSONS

The maximum amount of fuel tax rebated to participating disabled persons is raised to $300 annually from $200. The new maximum will apply in the current benefit year, which started August 1, 1991, and in subsequent years.

HOTEL ROOM TAX ACT

ACCOMMODATION SOLD ONLY IN PACKAGES WITH SPECIALIZED SERVICES

A maximum purchase price of $100 per night is introduced, effective April 15, 1992, for the purpose of calculating hotel room tax when accommodation is sold only as part of a package with specialized services.

Currently, the value of accommodation sold only as part of a package with specialized services is calculated at 15 per cent of the package price. Under the new provisions, the value of the accommodation calculated in this manner is capped at $100 per night.

If accommodation is also sold separately (apart from packages with specialized services), the posted room rate is used to determine the value of the accommodation component of the package and is not subject to the $100 maximum.

EXEMPT CABINS WITHOUT AMENITIES

The definition of accommodation is amended to exempt cabins without utilities and other amenities, effective April 15, 1992.

INSURANCE PREMIUM TAX ACT

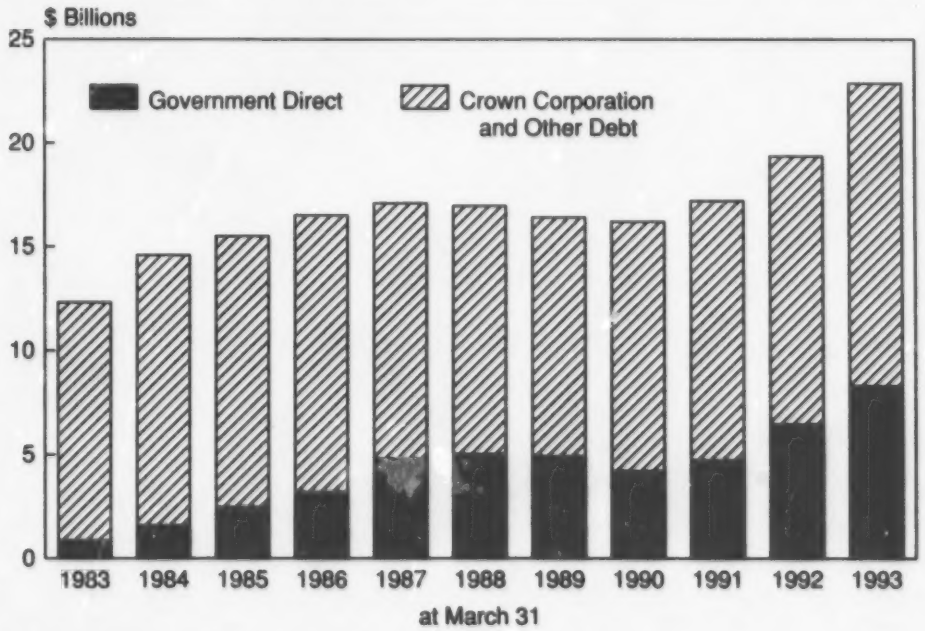
The tax rate applied to insurance premiums paid to unauthorized insurers is increased to seven per cent from five per cent, effective March 27, 1992. This new rate will more closely reflect the traditional differential in tax rates which apply to these premiums over the tax rates (two per cent to four per cent) which apply to premiums paid to authorized insurers. The revenue impact will be slight, estimated at $40,000 per year.

Provincial Government and Crown Corporation Financing

Overview

The provincial government and its Crown corporations and agencies incur debt to finance operations and capital projects. The provincial government also provides certain financing to other organizations, including some local government agencies. Chart D1 shows that during 1991/92, net direct and guaranteed debt increased $2.2 billion to $19.4 billion. In 1992/93, it is estimated this debt will increase $3.5 billion to total $23 billion at year end. More than half of this increase is for direct government purposes with the remainder for Crown corporations, agencies and other guarantees.

CHART D1
DIRECT AND GUARANTEED DEBT*



* Net of sinking funds and unamortized discounts.

The increase in provincial government direct debt in 1991/92 was due to lower growth in revenues and higher-than-expected spending. Consequently, the provincial government's direct debt of $6.5 billion at the end of 1991/92 was $470 million higher than originally forecast.

Total provincial direct and guaranteed debt peaked at 30.3 per cent of gross domestic product (GDP) at March 31, 1986. At March 31, 1993, this debt is expected to equal 25.9 per cent of GDP. The provincial government's net direct debt as a percentage of GDP is estimated at 9.4 per cent at March 31, 1993.

Financing Process

The provincial government and its Crown corporations and agencies incur debt by one of three financing methods:

- debt issued by the government for its own purposes;
- fiscal agency debt incurred in the name of the government with the proceeds re-lent to Crown corporations and agencies; and
- debt incurred by Crown corporations and others with a provincial government guarantee as to the payment of principal, premium and interest.

Under its fiscal agency program, government acts as a fiscal agent by borrowing directly in the financial markets and relending the funds to Crown corporations and agencies. This program provides lower cost financing to Crown corporations due to the province's strong credit rating and reputation in financial markets. As well, a single borrower offering larger debt issues is able to borrow at lower rates. Most Crown corporation and agency borrowing is done through the fiscal agency program.

Regardless of the borrowing method used, repayment of borrowings and financing costs remains the responsibility of the Crown corporation or agency. However, in certain cases, the provincial government provides a contribution to pay for all or part of the debt service costs.

In order to provide for the orderly repayment of debt, the provincial government and Crown corporations establish sinking funds for virtually all debt with a term of five or more years. At March 31, 1992, sinking fund investments totalled $5 billion. Debt with a term of one year or longer will be 60 per cent covered by sinking funds at maturity, assuming that these funds earn an average of eight per cent and that scheduled sinking fund payments are made.

Composition of 1992/93 Borrowing and Debt

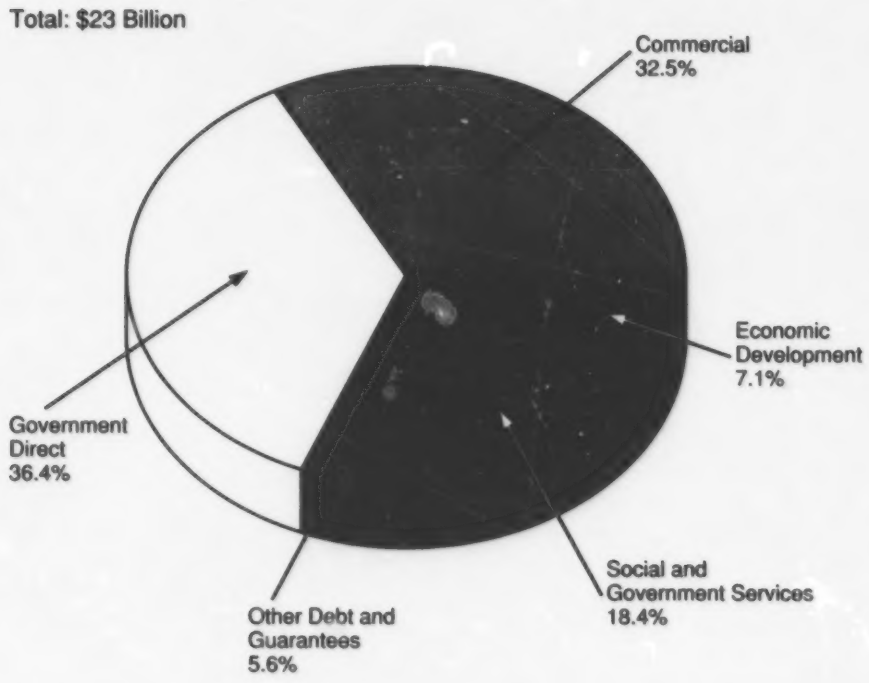
Chart D2 gives a breakdown by category of estimated provincial direct and guaranteed debt outstanding at March 31, 1993.

Debt of the provincial public sector is issued for the following purposes:

- **Provincial government direct debt** to fund government operations and capital expenditure.
- **Commercial Crown corporations,** which include British Columbia Hydro and Power Authority (B.C. Hydro) and British Columbia Railway Company. These corporations generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges.
- **Economic development Crown corporations and agencies**, including the British Columbia Ferry Corporation and British Columbia Transit. These corporations sell services directly to the public, but their revenues may not cover their operating expenses. Because these corporations and agencies provide economic benefits to the province, the government provides grants or other forms of assistance to them.

CHART D2

DIRECT AND GUARANTEED DEBT*
AT MARCH 31, 1993



* Net of sinking funds and unamortized discounts.

- **Social and government service capital projects** incur debt largely to finance construction of hospitals, schools and post-secondary educational institutions. Debt service requirements are met through provincial grants or rental payments and, for hospitals, partially through local property taxes.

- **Other debt and guarantees** includes guarantees to private sector firms and individuals through various government programs, including student financial assistance, loans to agricultural producers, and guarantees issued under the British Columbia Home Mortgage Assistance Program. In addition, the provincial government offers fiscal agency financing to other public bodies such as universities and local government agencies.

Table D1 outlines the 1992/93 financing plan for the government and its Crown corporations and agencies. Other debt and guarantees are shown in Table D2.

TABLE D1
GOVERNMENT, CROWN CORPORATION AND AGENCIES FINANCING PLAN

	Net Debt Outstanding at March 31, 1991	1991/92 Transactions		Forecast Net Debt Outstanding at March 31, 1992	1992/93 Transactions		Forecast Net Debt Outstanding at March 31, 1993
		New Borrowing[1]	Retirement Provision[2]		New Borrowing[1]	Retirement Provision[2]	
	($ millions)						
PURPOSES:							
Provincial Government Direct	4,725.9	2,061.6	329.5	6,458.0	2,259.2	417.2	8,300.0
Commercial Crown Corporations and Agencies:							
British Columbia Hydro and Power Authority	7,151.9	420.8	600.7	6,972.0	629.0	404.0	7,197.0
British Columbia Railway Company	287.0	(29.9)	34.5	222.6	—	1.9	220.7
	7,438.9	390.9	635.2	7,194.6	629.0	405.9	7,417.7
Economic Development Crown Corporations and Agencies:							
British Columbia Ferry Corporation	59.8	—	8.2	51.6	176.0	3.1	224.5
British Columbia Transit	1,227.6	114.7	35.1	1,307.2	109.6	36.9	1,379.9
Other	0.6	14.6	0.6	14.6	—	—	14.6
	1,288.0	129.3	43.9	1,373.4	285.6	40.0	1,619.0
Social and Government Services Crown Corporations and Agencies:							
British Columbia Assessment Authority	6.4	(2.4)	—	4.0	—	—	4.0
British Columbia Buildings Corporation	514.3	80.7	57.7	537.3	89.0	77.7	548.6
British Columbia Educational Institutions Capital Financing Authority	480.7	164.0	20.7	624.0	245.0	36.8	832.2
British Columbia Regional Hospital Districts Financing Authority	916.4	143.8	82.7	977.5	240.4	89.5	1,128.4
British Columbia School Districts Capital Financing Authority	952.7	292.2	105.2	1,139.7	453.0	137.0	1,455.7
Capital Project Certificate of Approval Program[3]	174.5	10.3	—	184.8	—	—	184.8
British Columbia Systems Corporation	33.8	12.4	15.4	30.8	7.0	1.6	36.2
	3,078.8	701.0	281.7	3,498.1	1,034.4	342.6	4,189.9
Less Amounts Held as Investments/Cash Held for Relending by Consolidated Revenue Fund	5.4	—	0.5	4.9	—	0.8	4.1
GOVERNMENT, CROWN CORPORATION AND AGENCIES DEBT TOTAL	16,526.2	3,282.8	1,289.8	18,519.2	4,208.2	1,204.9	21,522.5

[1] Gross new long-term borrowing plus net change in short-term debt.
[2] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[3] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program, are used as interim financing for capital construction and are eventually converted to long-term debt.

TABLE D2
OTHER DEBT AND GUARANTEES

	Net Debt Outstanding at March 31, 1991	Forecast Net Debt Outstanding at March 31, 1992	Forecast Net Debt Outstanding at March 31, 1993
	($ millions)		
Fiscal Agency Borrowing[1]	138.6	239.4	485.0
Guarantees[2]	536.7	601.4	803.5
Total Other Debt and Guarantees	675.3	840.8	1,288.5

[1] Net of sinking funds and other retirement provisions.
[2] Includes loan guarantee provisions.

The government expects that its gross borrowing requirements for provincial government purposes will total $2.3 billion in 1992/93. This includes borrowing to refinance maturing debt and to cover the deficit and other financing transactions. Net provincial government direct debt will increase by $1.8 billion, and at March 31, 1993, will account for 36.4 per cent of total direct and guaranteed debt outstanding.

Commercial Crown corporations net debt is expected to increase $223 million to $7.4 billion at March 31, 1993. During the year, B.C. Hydro is expected to increase its debt by $225 million, largely for expanded transmission and control facilities.

Economic development Crown corporations and agencies net debt is expected to increase by $246 million to $1.6 billion at March 31, 1993. During 1992/93, British Columbia Ferry Corporation is expected to increase its net debt by $173 million, largely for the purchase of a new super ferry. British Columbia Transit is expected to increase its net debt by $73 million.

Social and government services Crown corporations account for the largest share of Crown corporation new borrowing in 1992/93. During the year, net debt is expected to rise $692 million to $4.2 billion at March 31, 1993. Most of this borrowing will be used to finance the construction of hospitals, schools and post-secondary institutions.

Other debt and guarantees are expected to increase $448 million. This includes new borrowings for the Greater Vancouver Sewerage and Drainage District and the Greater Vancouver Water District, and an increase in guarantees issued for student financial assistance and the British Columbia Home Mortgage Assistance Program.

Sources of Funds

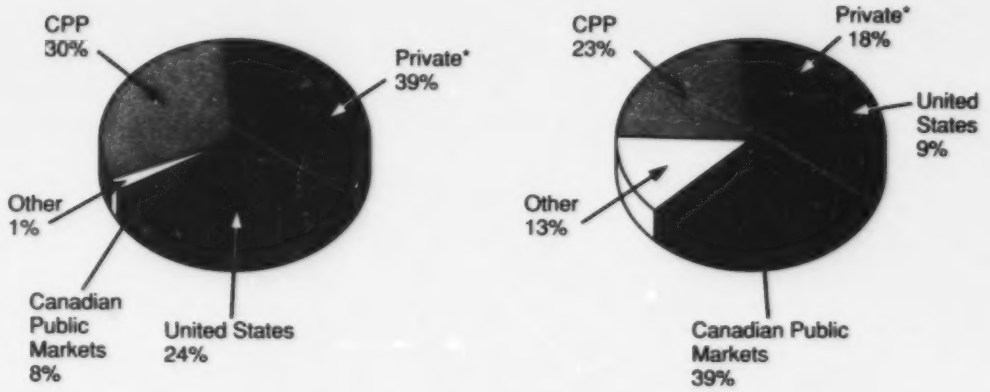
In order to minimize financing costs, the government raises funds through a variety of instruments, depending upon financial market conditions and subject to an appropriate debt portfolio mix. The terms of the instruments are selected to dovetail with existing debt maturities and to limit the risks associated with interest rate fluctuations.

Funds borrowed to date have come from a variety of sources, including public financial markets, the Canada Pension Plan Investment Fund (CPP), private institutional lenders and provincial trusteed funds. Chart D3 shows that between 1982 and 1992, borrowing sources have dramatically shifted away from private funds and toward public bond issues.

Most of the provincial government's funds have been obtained through medium and long-term debt issues in public capital markets in Canada, the United States and Europe, in either

Canadian or U.S. dollars. To a lesser extent, private placements in North America, Europe and Japan have been a source of medium and long-term funds. In the case of public issues, the ultimate liabilities of all private placements are payable in either Canadian or U.S. dollars.

CHART D3
SOURCES OF FUNDS BORROWED



* Includes borrowing from provincial trusteed funds.

Borrowing from the Canada Pension Plan Investment Fund has been used primarily to finance social capital projects such as schools and hospitals. Provincial trusteed funds, which include provincial public sector pension funds and provincially administered sinking funds, at one time provided an important source of funds for Crown corporations. However, at March 31, 1992, less than 2 per cent of outstanding debt has been borrowed from trusteed funds.

The provincial government is planning to update its required filings with regulators to enable it to borrow in the United States. Should it be cost-effective to use this market, hedging strategies would be reviewed carefully and appropriate policies would be adopted to address the risks associated with unfavourable currency movements.

Short-term debt has become an important source of funds for both the provincial government and its agencies. A weekly treasury bill auction raises funds for government purposes and commercial paper is issued in Canada and the United States for periods ranging from one day to one year to finance both government and Crown corporation expenditures. The size of the short-term debt portfolio fluctuates from one year to the next, reflecting the interest rate cycle and cash requirements.

The province is planning to introduce a medium-term note program to take advantage of various market opportunities that are not currently accessible through the short and long-term borrowing programs. The great degree of flexibility offered by medium-term notes in terms of timing, term and size of new debt issues is well suited to the diverse needs of the province and its various Crown corporations and agencies.

APPENDIX E

Deficit Reduction Strategy

Introduction

Provincial fiscal policy plays a role in stabilizing economic activity. Maintenance of provincial programs during economic recessions provides the social safety net necessary to protect British Columbians from economic hardship and contributes to consumer and investor confidence.

Over the business cycle, revenues and expenditures should be balanced. Deficits incurred during a downturn should be offset by surpluses during a recovery.

As the Independent Financial Review documented, provincial spending began increasing rapidly in 1989/90, well before the recent economic slowdown commenced. This, combined with federal cutbacks to shared-cost programs, resulted in a rapid deterioration in the province's fiscal position.

As a result, British Columbia is now burdened with a structural deficit. Unlike the cyclical component of the deficit, which will disappear as the economy recovers, the structural component of the deficit will persist unless concerted action is taken to eliminate it.

A large structural deficit is not sustainable. Increased debt incurred to finance a structural deficit will ultimately impose large fixed costs on the provincial economy to service the debt. These costs reduce fiscal flexibility and in the long run endanger the social programs on which British Columbians depend.

This appendix summarizes the key elements of the government's deficit reduction strategy and the overall approach that it will take to reduce the deficit.

Overall Fiscal Goals

The government's overall fiscal strategy is based on the following principles:

- ***Sound and Prudent Management of Public Finances.*** That means capping and gradually eliminating the province's structural deficit. This government will pursue a consistent, long-term approach to getting the structural deficit under control.
- ***Protection of Basic Public Services.*** Deficit reduction will not result in the deterioration of essential health and education services that are vital to our quality of life and future economic growth.
- ***Fairness.*** Deficit reduction must not place undue burdens on groups and individuals least able to afford them.
- ***Balance.*** The government will take a balanced approach, using both revenue and expenditure measures to bring down the deficit.
- ***Openness and Honesty.*** Taxpayers must be fully informed of the state of British Columbia's finances.
- ***Economic Stability and Growth.*** Deficit reduction must occur within a framework that supports and encourages economic growth and maintains a competitive business environment.

Deficit Reduction Strategies

The government's goal of eliminating the structural deficit will be achieved by pursuing the following strategies.

1. Programs will be designed and administered within an overall financial framework. This will mean:
   - Avoiding large, open-ended program commitments.
   - Setting and enforcing budgetary targets more effectively.
   - Strengthening the role of Treasury Board to ensure that financial and policy objectives are integrated into an overall operating framework.
   - Reviewing, on an annual basis, the province's progress toward a balanced budget through 1996.
2. Existing government programs will be evaluated on an ongoing basis, starting with the areas of greatest provincial expenditure. Programs that are not meeting their objectives or are not cost-effective will be overhauled or eliminated.
3. All government collective bargaining and funding decisions will be based on public sector salary increases that are fair to public workers and are consistent with the overall goal of deficit reduction.
4. The government will continue to improve the productivity of the public service to help eliminate waste and ensure that services are delivered with maximum efficiency. Program-specific performance targets will be established to provide better measures by which productivity and program effectiveness can be evaluated.
5. Revenue collection procedures will be strengthened to ensure that the government collects revenues owed. Charges for the goods and services that government provides will be reviewed to ensure that they better reflect the cost of providing them.
6. The provincial taxation system will be reviewed to ensure the fairness of any new measures required to reduce the deficit.
7. New programs will be introduced only within the means of the government and the taxpayer. More emphasis will be placed on re-allocating expenditures from lower-priority areas to fund new, higher-priority programs.

Conclusion

The first priority of the government's fiscal policy is to eliminate the structural deficit.

This deficit arose for two reasons: first, in recent years, expenditure growth exceeded the ability of the province's revenue structure to finance it; and, second, the federal government offloaded social program costs onto the province.

This budget takes the first step to restoring responsible fiscal management and reducing the structural deficit. The deficit reduction strategies outlined here will guide the government in future budgets, as it works to achieve a balanced budget.

APPENDIX F

British Columbia Endowment Fund

Introduction

Effective April 1, 1992, the British Columbia Endowment Fund (BCEF) will be created as a perpetual fund, investing in a range of diversified financial assets.

The investment portfolio of the former Privatization Benefits Fund (PBF), amounting to approximately $524 million, will be transferred to the new fund. At the same time, $15 million of this amount will be transferred to the new Natural Resource Community Fund.

The primary goal of the new fund will be to return to the British Columbia taxpayer a market rate of return, while creating wealth and supporting economic development in the province.

A special feature of the fund will be its focus on British Columbia. The fund will earmark $100 million for investments in business enterprises, through venture capital and merchant banking. Wherever possible, these funds will be co-invested with the private sector, levering a larger pool of capital available for investment.

Fund Objectives

The objectives of the BCEF will be to:

- earn a market rate of return and provide a consistent flow of earnings, commensurate with risk;
- maintain the capital base of the fund in perpetuity;
- promote the development and growth of capital markets in British Columbia;
- invest strategically in opportunities to diversify the British Columbia economy and create wealth;
- provide funding, in cooperation with B.C. Trade Development Corporation (BCTDC), that will help develop British Columbia export industries and increase trade opportunities; and
- participate in an investment portfolio that will make new funds available for emerging or high-technology industries.

Table F1 illustrates the expected future composition of the fund.

TABLE F1
BRITISH COLUMBIA ENDOWMENT FUND

Core Holdings		British Columbia Focus	
Minimum Amount $400 million	($ millions)	Minimum Amount $100 million	($ millions)
Held in a diversified blue-chip portfolio of		Available for investments	
—money market funds	80	—Venture Capital (already committed)	20
—bonds	125	—Merchant Banking ($1–10 million)	40
—Canadian equity	140	—Trade Development (administered by B.C. Trade Development Corp.)	30
—foreign equity	40	—Other	10
—mortgages	10		
—real estate	5		
TOTAL	400	TOTAL	100

As shown in the table, a significant portion of the fund will be invested in a well diversified portfolio of blue-chip stocks and bonds. However, it is intended that up to $100 million will be invested, primarily along with private sector investors, in venture capital, merchant banking and trade/export related activity.

Venture Capital

The government hopes to join with the private sector in investments which facilitate the continuing development of British Columbia from an economy dependent on primary resource extraction to a more diversified, value-added economy. Innovative, high-technology investments are among the most important avenues for economic diversification in British Columbia. However, there is a shortage of capital and of financial and management expertise to help emerging companies move from the product conceptual stage to the production and marketing stage. For this reason, the BCEF is participating in two venture capital pools.

Venture capital is typically defined as:

- involving equity or quasi-equity participation;
- requiring a longer-term investment (e.g. 7 to 12 years);
- including active involvement in management of the companies; and
- accepting a relatively high risk in return for the prospects of a higher return.

The BCEF's venture capital funds are currently committed to two Vancouver-based organizations. Both are seeking institutional funds to match the government's commitment of $10 million each. When the funds are fully-subscribed, more that $40 million in venture capital will be available, largely for investment in British Columbia companies.

Merchant Banking

The government plans to seek proposals from the private sector to enhance the availability of "medium-tier" financing to serve the needs of British Columbia companies. Many British Columbia firms which have completed product development and are in the process of small-scale operation have difficulty raising funds for larger-scale production. Because this activity is key in promoting prosperity in British Columbia, the BCEF plans to add up to $40 million to the pool of capital available for such purposes. The BCEF funds will be invested in a minority position and on equal terms and conditions with other investors. It is anticipated that both equity and term lending will be made available, in the $1 to $10 million range.

Trade Initiatives

British Columbia is an export-oriented province. Trade is the life-blood of the provincial economy, with one in three jobs dependent on trade. Traditionally these export jobs have been resource-based. British Columbia needs to diversify and expand its trade in knowledge-based activities. But locating the financing to aggressively pursue overseas markets has remained a consistently difficult problem for British Columbia firms. The BCEF, therefore, plans to make up to $30 million available to BCTDC, for investment in export-related companies on a market return basis. The funds will be provided as capital to BCTDC for investment in companies marketing their products abroad or for co-investment with foreign firms planning to establish new enterprises in British Columbia with an export focus. BCTDC, which expects to finalize the details of this initiative over the coming year, will be responsible for providing BCEF with an appropriate return on capital invested.

Core Holdings

The core holdings of the BCEF will continue to be invested in a diversified portfolio of blue-chip bonds, domestic and international equities, mortgages and real estate. As Table F1 indicates, over one-half of the core holdings are fixed-income investments.

To the extent possible, these funds will be managed to generate maximum value-added within the British Columbia financial sector. For example, seven external fund management firms, each located or with an affiliated office in British Columbia, have been contracted to manage the Canadian and international equity holdings of the BCEF.

This strategy has encouraged a number of firms to open new offices in British Columbia; others have been assisted by enabling them to demonstrate their capability to investors across Canada. Several firms have expanded their professional equity trading and analyst staff in British Columbia as a result of the greater volume of blue-chip stock transactions being generated.

The fund's core holdings are beginning to have an impact on the provincial economy in other ways. For example, the BCEF participated in a real estate development project which financed over 280,000 square feet of commercial tenant space and over 400 modestly priced residential units in British Columbia.

In addition, the core equity portfolio holds positions in a significant number of institutional grade British Columbia companies that are significant employers in this province.

Fund Management

The BCEF will be managed on a portfolio basis by the Provincial Treasury of the Ministry of Finance and Corporate Relations. The ministry also manages $23 billion in pension and other trust funds.

APPENDIX G

The Impact of Federal Economic and Monetary Policies

In the late 1980s, the Bank of Canada embarked on a more restrictive monetary policy by raising interest rates in an effort to achieve a significant reduction in the Canadian rate of inflation. As a result, Canadian short-term interest rates rose over 5 percentage points above U.S. rates. The value of the Canadian dollar also appreciated from about 81 U.S. cents in 1988 to over 87 U.S. cents in 1991.

Three major economic studies have recently concluded that this policy has seriously damaged the Canadian economy and increased government deficits. The impact on British Columbia was slower economic growth, lost jobs and a higher provincial deficit.

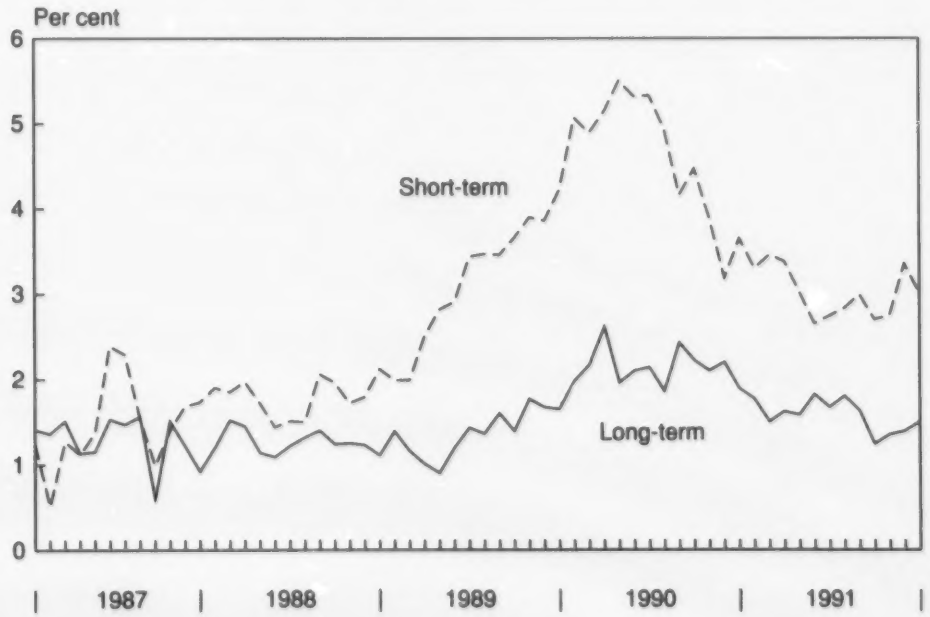
These studies are:

Macropolicy and Canada's International Competitiveness — Conference Board of Canada

Why Has Canada's Economy Performed So Poorly? — WEFA Canada

An Economic Assessment of Federal Monetary Policy — Informetrica Ltd. for the Government of British Columbia

CHART G1
CANADA-U.S. INTEREST RATE DIFFERENTIALS



Source: Bank of Canada, Citicorp

The Conference Board study found that the federal government's high interest rate policies have reduced inflation:

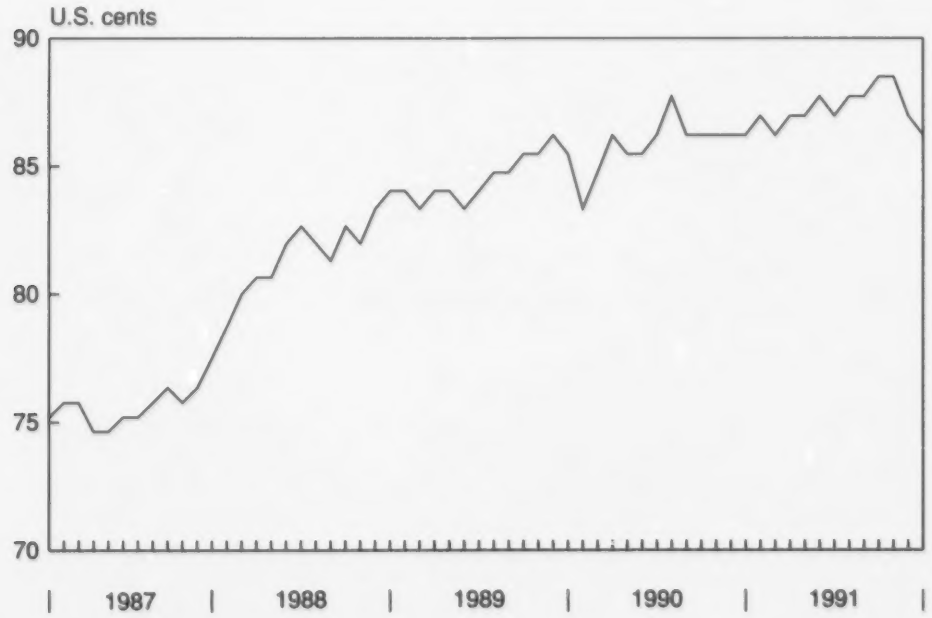
> "However, it took a severe recession and a significant loss of employment to get there. The economy has, in fact, operated significantly below its potential for the past three years . . .
>
> If the economy had expanded at its potential rate of growth of 3 to 3.5 per cent a year, real output would have been higher by about $50 to $60 billion. Thus, by underperforming over the past three years, the economy suffered a loss of output of between $40 and $50 billion."

The Conference Board concluded that the federal high interest rate policy:

> ". . . also led to a significant appreciation of the Canadian dollar, a relative loss of competitiveness, a lower trade surplus and a rapidly worsening current-account deficit."

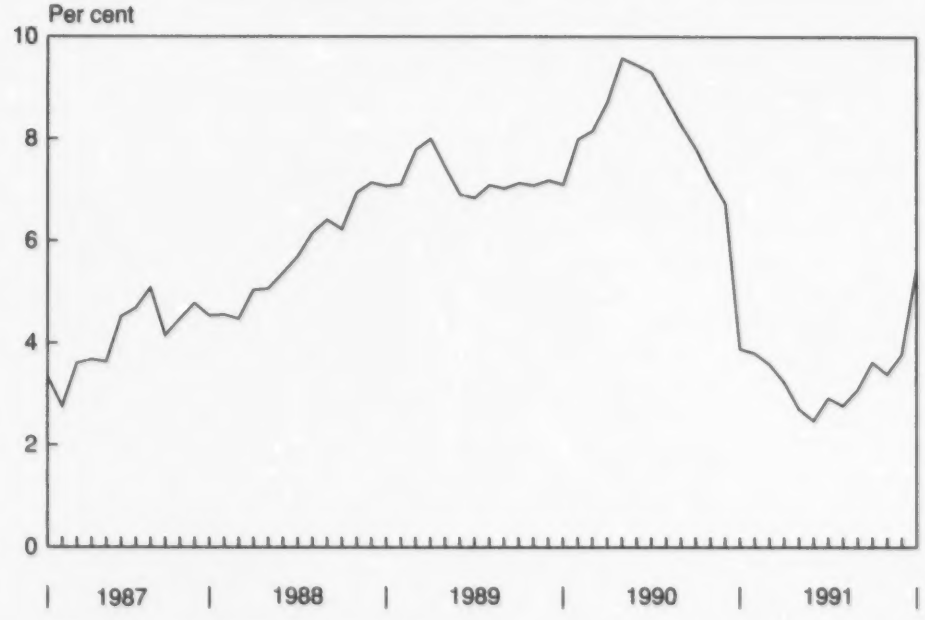
The WEFA Canada study concluded that federal monetary policy, with its combination of high interest rates and a high Canadian dollar, was responsible for the country's relatively poor economic performance over the past few years.

CHART G2
CANADIAN DOLLAR



Source: Bank of Canada

CHART G3
CANADIAN REAL SHORT-TERM INTEREST RATE



Source: Bank of Canada, Statistics Canada

Specifically, WEFA Canada found that in 1991 this policy:

- lowered Canada's economic growth by 2.5 per cent;
- raised the unemployment rate from 8 per cent to 10 per cent;
- increased the federal deficit by $20 billion;
- eliminated 100,000 jobs in the manufacturing sector; and
- lowered the inflation rate to 5 per cent from 8 per cent.

The report also concludes that both federal and provincial fiscal policies have de-stabilized the economy and contributed to high interest rates:

> ". . . they have been loosening fiscal policy in economic booms and tightening it in recessions . . . . As a result, governments have had a de-stabilizing impact on the economy. They are causing the economy to exhibit wider swings than would occur in their absence. If they do not change their ways, the economy can look forward to a combination of the boom-bust cycles that have been so disruptive to private sector economic activity in the past. This type of performance will . . . hinder Canada's ability to compete in an increasingly competitive world economy."

Informetrica Ltd. was commissioned by the British Columbia government to assess the impact of the federal government's high interest rate policy in both British Columbia and Canada as a whole.

It found that, in 1991, this policy:

- lowered British Columbia's economic growth by 2.9 per cent;
- eliminated 15,000 British Columbia jobs and increased the unemployment rate by 1 percentage point;
- lowered British Columbia investment by almost 4 per cent; and
- increased the British Columbia government's deficit by $500 million.

All three studies show that federal monetary policy has deepened Canada's recession and represents one of the largest threats to economic recovery.

Although the value of the Canadian dollar recently has declined relative to its U.S. counterpart, it still remains high. Nominal interest rates have come down, but a large differential remains between Canadian and U.S. short-term interest rates. Real, inflation-adjusted, interest rates also remain high (see Chart G3).

British Columbia has taken a lead role in opposing federal policies, and proposing positive alternatives, at First Ministers' Conferences on the Economy and at federal-provincial Finance Ministers' meetings.

APPENDIX H

The Impact of Federal Offloading

Introduction

In the 1960s and 1970s, the federal government and the provinces established a jointly-funded system of public health care and other programs. The federal government committed to share the cost of these services. Canadians have long considered these programs to be one of the benefits of Canadian federalism.

This system is now under considerable stress because of the federal government's gradual shifting of the costs of jointly-funded programs onto the provinces. This is termed offloading.

The federal government has pursued its policy of offloading in several ways:

- Reducing, or eliminating outright, certain federal transfers;
- Limiting the growth rate of a federal transfer, so the federal government's share of program costs diminishes;
- Imposing new conditions which narrow eligibility for federal cost-sharing; or
- Fully or partially withdrawing a federal government service, thus increasing demands on corresponding provincial services.

Federal offloading measures have affected a wide range of cost-shared programs including health care, post-secondary education, social assistance, economic development, and services to aboriginal people (see Topic Box on "Federal Offloading: The Major Transfers" for details).

What Lies Behind Federal Offloading?

Offloading resulted primarily from the federal government's desire to reduce its deficit and debt — expected to exceed $445 billion for 1992/93 — while avoiding association with any program cuts. The bulk of this debt has accumulated since the mid-1980s. However, the seeds of the debt problem were sown earlier.

During the middle-to-late 1970s, federal program expenditure (total spending less debt servicing costs) remained relatively stable as a proportion of the economy, but revenue dropped sharply, causing deficits to increase. This weakening of revenues was caused by slower economic growth, rising unemployment and discretionary cuts in personal income taxes, corporate income taxes, and federal sales taxes.

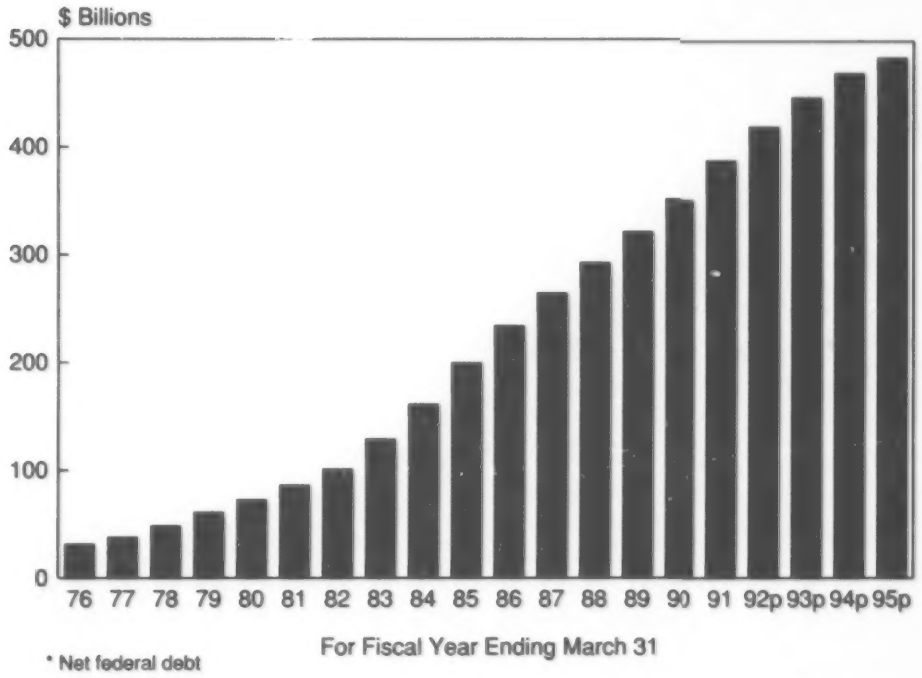
In 1975/76, federal government program expenditure began exceeding revenue, causing sharply increased deficits and rapidly rising debt.

The debt problem was exacerbated by the recession which began in 1981. Consequently, given the prevailing high interest rates, debt servicing costs have risen significantly causing debt to increase sharply (see Chart H1).

By the late 1980s, rising federal debt had severely constrained that government's fiscal flexibility. More and more, federal fiscal priorities were being dictated by the cost of servicing its debt. In 1992/93, interest costs will represent 30 cents of every federal revenue dollar.

CHART H1

ACCUMULATION OF FEDERAL DEBT*



* Net federal debt

While cuts to some federal transfers were begun as early as 1982, it was not until 1990 that the federal government developed a comprehensive plan to coordinate federal expenditure reductions. The federal Expenditure Control Plan, introduced in the 1990 federal budget and extended in 1991 and 1992, will reduce federal program spending by an estimated $47 billion over the 1990/91 to 1995/96 period.

The federal government argues that the provinces are being asked to bear their fair share of restraint. However, cuts in provincial transfers represent 47 per cent of federal savings under the Expenditure Control Plan, even though provincial transfers make up only 20 per cent of federal program spending. This proportion would be considerably higher if the current effects of federal offloading measures implemented before 1990/91 were included. For example, the 1992/93 cost to British Columbia of Established Programs Financing restraint measures introduced before 1990/91 is about $750 million.

Impact of Federal Offloading

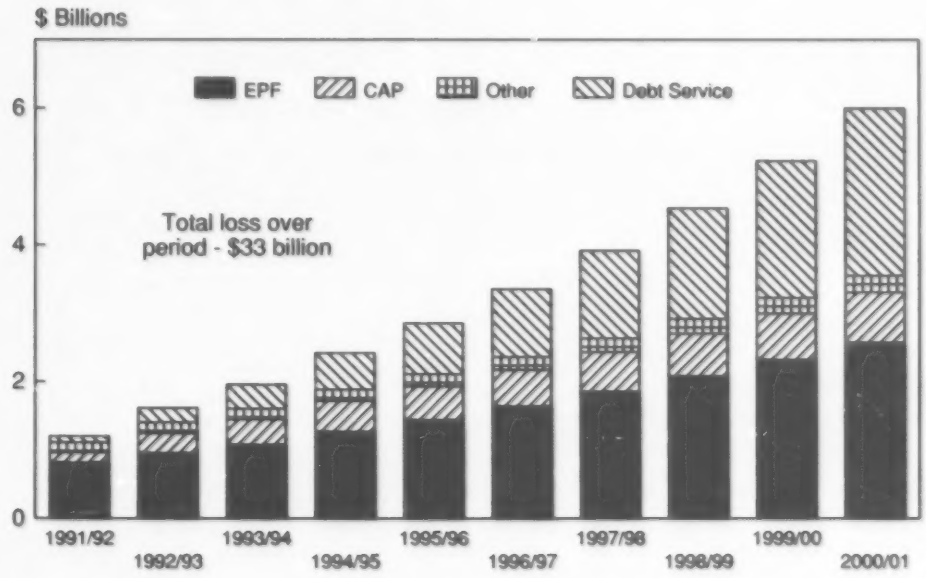
Federal offloading actions have the following effects:

- The effect on British Columbia of offloading measures implemented since 1982 is $1.4 billion in 1992/93. This is equivalent to more than 75 per cent of the province's projected deficit.
- The total loss for all provinces is $11.4 billion.
- Provinces have had to raise taxes or increase debt to make up the federal shortfall.
- There have been increased demands on related provincial programs.
- Provincial governments have been pressured to fill the vacuum with new programs.

Further, as Chart H2 shows, the impact of federal restraint measures will grow significantly in years after their implementation.

CHART H2

BRITISH COLUMBIA'S FISCAL
LOSS FROM FEDERAL RESTRAINT



Fiscal Imbalance

Perhaps the most important effect of federal offloading is a rapidly growing federal-provincial fiscal imbalance. In other words, offloading has greatly widened the gap between program responsibility and revenue capabilities of the two orders of government.

Most of the growth in public sector spending is occurring in health care and other social services — areas of provincial jurisdiction.

Future projections indicate that this trend will continue. Provincial spending on health, education and social services, measured as a per cent of gross domestic product, will rise significantly in the future, even with expenditure restraint measures. By contrast, federal contributions to the provinces in these areas are projected to decline.

Therefore, at the same time as provincial costs are rising, federal offloading is reducing the funds available to provinces. Without corrective action, the fiscal imbalance between the federal and provincial governments will widen.

A rapidly growing fiscal imbalance between the two senior orders of government in the Canadian federation is unsustainable and must be addressed jointly by both orders of government.

FEDERAL OFFLOADING: THE MAJOR TRANSFERS

Federal offloading has affected all three of the major transfer programs — Established Programs Financing, the Canada Assistance Plan and Fiscal Equalization — as well as a number of smaller programs.

Established Programs Financing

In 1977, the federal government replaced cost-sharing of post-secondary education and health care with the Established Programs Financing (EPF) arrangement — a fixed per capita block funding transfer. For the first time, federal funding growth was unrelated to provincial program costs; rather, it was designed to increase at the rate of growth in population and the national economy.

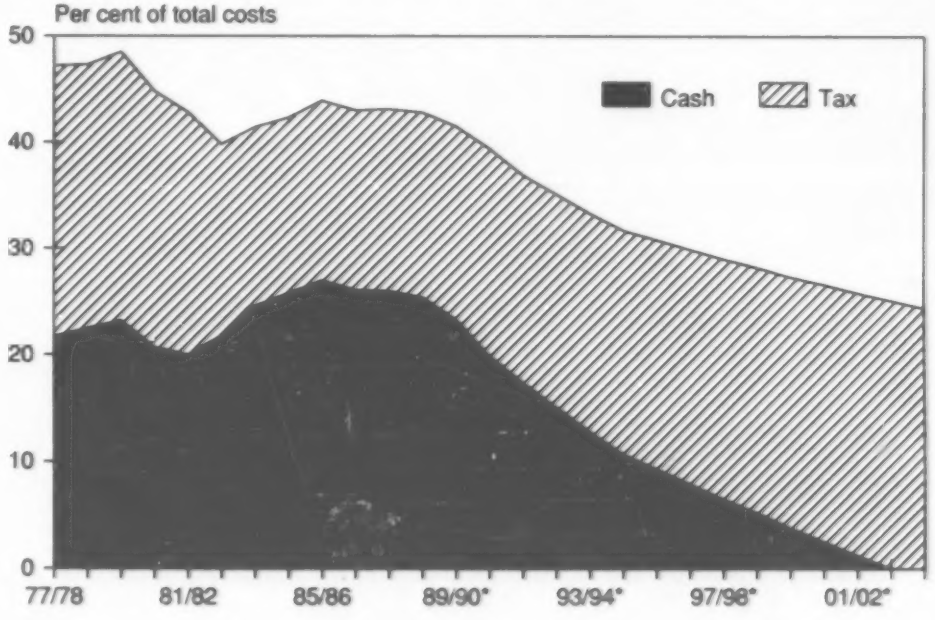
Beginning in the early 1980s, the federal government altered the EPF arrangement to reduce federal contributions below those produced by the original formula.

The most recent actions, introduced in the 1990 and 1991 federal budgets as part of the federal Expenditure Control Plan, involve freezing this per capita transfer for the five-year period 1990/91 to 1994/95.

As the chart shows, federal restraint applied to EPF has meant that federal funding for post-secondary education and health, as a share of provincial costs, has fallen from approximately 50 per cent at the start of the program to an estimated 36 per cent in 1992/93. Projections indicate that the level will fall to 27 per cent by 2000/01.

The chart also indicates that the cash portion of the federal transfer is declining and will disappear within a decade.

CHART — EPF AS % OF HEALTH & PSE COSTS



*Estimated

Canada Assistance Plan

Since 1967, the federal government has provided funding, through the Canada Assistance Plan (CAP), to assist with provincial expenditures on income assistance and other social services for those in need. Under the original CAP agreement, federal payments equalled 50 per cent of eligible provincial expenditures.

However, as part of its Expenditure Control Plan, the federal government imposed a 5 per cent limit on the annual rate of growth of CAP payments to British Columbia, Alberta and Ontario — the three provinces not in receipt of equalization — for the 1990/91 to 1994/95 period.

As a result, these provinces must now fund 100 per cent of social assistance costs above this threshold.

After British Columbia initiated a court challenge, the Supreme Court of Canada ruled in August 1991, that the federal government could unilaterally alter the CAP agreement. The court ruled that a government cannot be bound by the undertakings of its predecessors.

This ruling results in a reduction of more than $1.3 billion in British Columbia's CAP receipts over the five-year period 1990/91 to 1994/95.

Targeting the CAP reduction at the three "have" provinces (Ontario, Alberta and British Columbia) reflects the federal government's desire to redistribute provincial transfers at the same time as reducing them. Discriminatory targeting has been chosen despite the fact that:

- Federal CAP funds are themselves transferred directly to persons in need; and
- The size of the income assistance group in a province is not closely related to that province's fiscal capacity.

Normally, the equalization system is considered a more appropriate vehicle to deal with fiscal disparities among provinces.

Equalization

Equalization is provided to provinces that could not otherwise provide adequate levels of services to their residents without resorting to unduly high levels of taxation. Federal offloading has also affected the fiscal equalization program.

British Columbia is not eligible for equalization payments and therefore not directly affected by these changes.

Smaller Programs

Federal offloading has also affected many smaller program areas. Examples include:

- Changes to the *Unemployment Insurance Act* which came into effect in 1990, will cost British Columbia an estimated $60 million in increased income assistance costs in 1992/93 (see Topic Box on "Federal Offloading: Income Assistance").
- The federal government has reduced its share of British Columbia's reforestation costs by $50 million.
- In the mid-1980s, the federal government purchased $58 million worth of labour force training from British Columbia. Under a new agreement, the federal government gives only first consideration to provincial institutions for purchases up to a maximum of $26 million in 1992/93.
- The federal government has reduced its payments to British Columbia for costs of child welfare services to off-reserve status Indians by $6 to $8 million per year.

Offloading has raised British Columbia's costs in many other areas, including farm income stabilization, crop insurance, police services, economic development, social housing, and correctional facilities.

The combined negative impact on British Columbia of federal cuts to smaller programs is at least $160 million in 1992/93.

FEDERAL OFFLOADING: INCOME ASSISTANCE

In 1991, the federal government redesigned the Unemployment Insurance Program. The number of weeks of employment required to qualify for unemployment insurance was increased and it generally became more difficult to receive benefits under the program. As a result, fewer people were eligible for unemployment insurance. This put pressure on provincial income assistance budgets, particularly when employment growth slowed in 1991.

At the same time, the federal government restricted the amount of income assistance that it would cost-share with the provinces of Ontario, British Columbia and Alberta. This has had the effect of transferring to each of these provinces the major portion of the incremental costs of providing food, clothing and shelter to a growing number of unemployed. These costs, which are reflected in income assistance expenditures, are large and they continue to increase rapidly.

Increased income assistance expenditures are the result of policy decisions to increase the level of benefits and rapidly expanding caseloads. Caseload growth has been the major factor.

Approximately 280,000 people in British Columbia are now receiving income assistance if dependants are counted. The rising number of people receiving income assistance can be attributed to several causes, principally:

- the slowdown in the economy;
- the workforce expanding more rapidly than jobs were created, partly because of job-seekers who migrated here from other parts of Canada, and from abroad; and
- the shifting of people from unemployment insurance to income assistance.

INCOME ASSISTANCE CASELOADS AND TOTAL ANNUAL EXPENDITURE 1987/88 to 1992/93

Year	Average Monthly Caseload	Percentage Change	Annual Expenditure ($ Million)	Percentage Change
1987/88	136,419	−4.1	865.0	−1.5
1988/89	133,439	−2.2	868.3	0.4
1989/90	124,808	−6.5	884.3	1.8
1990/91	130,541	4.6	986.4	11.5
1991/92	153,437	17.5	1,219.6	23.6
1992/93	166,138	8.3	1,450.9	19.0

Supplementary Tables

TABLE I1
GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1988	1989	1990	1991
Demographics:					
Population (June 1)	thousands	2,980	3,048	3,133	3,219
Public school enrolment (Sept. 30)	thousands	500	513	520	558
Labour force	thousands	1,514	1,578	1,601	1,652
Employment	thousands	1,358	1,435	1,469	1,489
Unemployment rate	per cent	10.3	9.1	8.3	9.9
Main Economic Indicators:					
Provincial gross domestic product	$ millions	69,514	76,921	80,706	83,500[1]
Capital investment (new and repair)	$ millions	17,646	21,215	22,802	21,883
Retail sales	$ millions	21,023	23,036	24,459	23,726
New automobile sales	$ millions	1,648	1,760	1,713	1,543
Housing starts	dwelling units	30,487	38,894	36,720	31,675
Building permits	$ millions	4,150	5,216	4,976	5,131
Exports	$ millions	17,830	18,334	16,648	15,200[1]
Incomes:					
Personal income	$ millions	57,655	64,589	70,149	73,797[1]
Wages and salaries	$ millions	32,640	36,623	39,522	41,641
Average weekly earnings	$	466.41	491.63	515.91	543.36
Prices:					
Consumer price index, B.C. (urban)	1986=100	106.7	111.5	117.6	123.8
Consumer price index, Vancouver	1986=100	106.8	111.5	117.6	123.7
Consumer price index, Victoria	1986=100	106.4	111.2	117.1	123.8
Industrial product price index, Canada	1986=100	107.2	109.4	109.7	108.7
B.C. export commodity price index[2]	1986=100	114.6	118.2	114.4	99.5
Financial Indicators:					
Business incorporations	number	18,703	21,817	19,550	18,528
Business bankruptcies	number	1,144	1,004	1,128	1,262
Shares traded (Vancouver Stock Exchange)	$ millions	3,258	3,822	4,062	3,465
Personal savings deposits at chartered banks	$ millions	20,821	25,230	29,340	31,960[1]
Sector Indicators:					
Manufacturing shipments	$ millions	25,516	26,127	24,538	22,880
Timber scaled	thousand cubic metres	86,808	87,415	78,318	73,677
Lumber production	thousand cubic metres	36,736	35,952	33,515	31,406
Pulp and paper production	thousand tonnes	9,848	9,842	9,599	9,280
Gross value of mineral production	$ millions	3,225	3,162	2,971	2,783[3]
Petroleum and natural gas production	$ millions	735	783	887	840[3]
Electric power generation (net)	million kilowatt hours	60,943	57,655	60,662	62,981
Farm cash receipts	$ millions	1,143	1,171	1,207	1,216
Foreign visitors	thousands	4,878	4,910	5,130	5,285

[1] Ministry of Finance and Corporate Relations estimate.
[2] Developed by the Ministry of Finance and Corporate Relations.
[3] Ministry of Energy, Mines and Petroleum Resources estimate.

TABLE I 2
COMPARATIVE PROVINCIAL TAX RATES, MARCH 20, 1992

Tax	British Columbia*	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Provincial personal income tax[1] (per cent of family income)**	7.5	7.4	9.5	9.2	7.9	10.8[2]	8.9	8.9	8.9	9.2
Monthly Health Premiums ($/month)[3] Singles/Families	35/70	26/52	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporation income (per cent of taxable income)										
General rate/m&p***	16	15.5	15	17	15.5/14.5	6.90	17	16	15	17
Small business rate[4]	10	6	10	10	10	3.75	9	10	10	10
Corporation capital (per cent of taxable paid-up capital)										
Non-financial corporations	0.3	*Nil*	0.6	0.3	0.3	0.56	*Nil*	*Nil*	*Nil*	*Nil*
Financial corporations[5]	1.0/3.0	2.0	3.0	3.0	1.0	1.12	3.0	3.0	3.0	3.0
Payroll Tax (per cent of employer's payroll)[6]	N/A	N/A	N/A	2.25	1.95	3.75	N/A	N/A	N/A	1.50
Insurance premiums (per cent)[7]	3	3	3	3	3	3	3	3	3	4
Fuel taxes (cents per litre)[8]										
Gasoline	10.0	9.0	10.0	10.5	14.7	19.2	12.7	12.6	11.8	13.7
Diesel fuel	10.5	9.0	10.0	10.9	14.3	19.1	13.7	14.2	11.8	15.6
Retail sales[9]										
General rate (per cent)	6	*Nil*	7	7	8	8	11	10	10	12
Liquor (per cent)[10]	10	*Nil*	7	12	12	8	11	10	37.5	12
Meals (per cent)[11]	*Nil*	*Nil*	*Nil*	7	8	8	11	10	10	12
Accommodation (per cent)	8	5	7	7	5	*Nil*	11	10	10	12
Tobacco ($ per carton of 200)[12]	21.00	14.00	16.32	19.12	16.32	15.20	24.40	18.08	18.00	18.95

*British Columbia tax rates are shown as announced in the March 26, 1992 Budget.

**Calculated for a single wage earner with an income of $45,000 per year, a dependent spouse and two dependent children, using income tax rates in effect on March 20, 1992. British Columbia income taxes were calculated using rates announced in the March 26, 1992 Budget for 1992.

***Manufacturing and processing rate.

N/A—not applicable.

[1] All provinces except Quebec and Newfoundland impose surtaxes at varying rates on income tax above specified levels. British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec provide tax reductions at low income levels. Alberta, Saskatchewan and Manitoba also levy flat rate surtaxes on net or taxable income.

[2] Quebec has its own personal income tax collection system. All other provinces collect personal income tax in conjunction with the federal government.

[3] British Columbia also has a two-person family rate of $82 per month. Both British Columbia and Alberta provide premium assistance to low-income families.

[4] Some provinces have special provisions for newly incorporated small businesses.

[5] The rate of 3.0 per cent applies to financial corporations with paid-up capital exceeding $500 million. Financial corporations with capital between $1 million and $500 million pay a one per cent rate.

[6] Manitoba, Ontario and Newfoundland provide payroll tax relief for smaller employers.

[7] In some provinces, including British Columbia, different rates apply to life, sickness and accident insurance premiums. Most provinces, including British Columbia, levy an additional tax of one per cent on fire insurance premiums. British Columbia also levies an additional tax of one per cent on motor vehicle insurance. Newfoundland levies sales tax on insurance premium payments.

[8] Tax rates shown are for regular unleaded gasoline and diesel fuel used on highways. Nova Scotia and Prince Edward Island adjust tax rates periodically, depending on fuel price fluctuations. Figures for Quebec include an estimate of applicable provincial sales tax. Figures for British Columbia are effective April 1, 1992.

[9] Quebec has announced its intention to harmonize its sales taxes with the federal GST, effective July 1, 1992.

[10] Liquor served in commercial establishments is taxed at 10 per cent in Ontario. The Prince Edward Island rate includes a 25 per cent tax under the *Health Tax Act*. The Manitoba tax is seven per cent on beer.

[11] Several provinces have a basic exemption for low priced meals.

[12] Tax rates include estimates of provincial sales tax where applicable.

TABLE I 3
COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE (EFFECTIVE MARCH 20, 1992)

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	(dollars)									
Unattached Individual — $25,000										
1. Provincial Income Tax	1,407	1,376	1,826	1,791	1,377	2,498	1,623	1,610	1,610	1,678
2. Health Care Premiums	420	312	—	—	—	—	—	—	—	—
3. Property Tax (Rents)										
— Gross	—	—	—	—	—	—	—	—	—	—
— Net	—	—	—	—	—	—	—	—	—	—
4. Sales Tax	417	7	620	586	661	721	753	700	680	984
5. Fuel Tax	100	90	100	105	147	192	127	126	118	137
6. Total Provincial Tax	2,344	1,785	2,546	2,482	2,185	3,411	2,503	2,436	2,408	2,799
7. Federal Income Tax	2,633	2,633	2,633	2,633	2,633	2,633	2,633	2,633	2,633	2,633
8. Federal GST	755	755	755	755	755	755	755	755	755	755
9. Total Tax	5,732	5,173	5,934	5,870	5,573	6,799	5,891	5,824	5,796	6,187
Unattached Individual — $80,000										
1. Provincial Income Tax	8,353	7,888	9,804	10,424	8,231	11,957	9,318	9,241	9,241	9,629
2. Health Care Premiums	420	312	—	—	—	—	—	—	—	—
3. Property Tax										
— Gross	1,600	1,600	1,400	1,700	2,500	2,000	825	1,896	1,453	1,870
— Net	1,150	1,600	1,400	1,375	2,500	2,000	813	1,896	1,453	1,870
4. Sales Tax	1,027	17	1,526	1,442	1,627	1,775	1,852	1,722	1,673	2,420
5. Fuel Tax	150	135	150	158	221	288	191	189	177	206
6. Total Provincial Tax	11,100	9,952	12,880	13,399	12,578	16,020	12,173	13,048	12,544	14,125
7. Federal Income Tax	16,380	16,380	16,380	16,380	16,380	16,380	16,380	16,380	16,380	16,380
8. Federal GST	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859
9. Total Tax	29,339	28,191	31,119	31,638	30,817	34,259	30,412	31,287	30,783	32,364
Single Income Family of Four — $30,000										
1. Provincial Income Tax	602	1,308	1,830	982	1,175	450	1,501	1,489	1,489	1,551
2. Health Care Premiums	840	624	—	—	—	—	—	—	—	—
3. Property Tax (Rents)										
— Gross	—	—	—	—	—	—	—	—	—	—
— Net	—	—	—	—	—	—	—	—	—	—
4. Sales Tax	564	7	850	744	848	984	989	925	892	1,264
5. Fuel Tax	100	90	100	105	147	192	127	126	118	137
6. Total Provincial Tax	2,106	2,029	2,780	1,831	2,170	1,626	2,617	2,540	2,499	2,952
7. Federal Income Tax	908	908	908	908	908	908	908	908	908	908
8. Federal GST	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010
9. Total Tax	4,024	3,947	4,698	3,749	4,088	3,544	4,535	4,458	4,417	4,870
Single Income Family of Four — $45,000										
1. Provincial Income Tax	3,066	2,954	3,796	3,554	3,125	3,804	3,538	3,509	3,509	3,656
2. Health Care Premiums	840	624	—	—	—	—	—	—	—	—
3. Property Tax										
— Gross	1,660	1,400	2,035	2,400	2,300	1,900	1,150	1,705	1,408	1,123
— Net	1,210	1,400	2,035	2,075	2,300	1,900	1,133	1,705	1,408	1,123
4. Sales Tax	686	8	1,035	905	1,031	1,197	1,203	1,125	1,085	1,537
5. Fuel Tax	150	135	150	158	221	288	191	189	177	206
6. Total Provincial Tax	5,952	5,121	7,016	6,691	6,677	7,189	6,065	6,528	6,179	6,522

TABLE I 3
COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE (EFFECTIVE MARCH 20, 1992) — *Continued*

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	(dollars)									
7. Federal Income Tax	5,570	5,570	5,570	5,570	5,570	5,570	5,570	5,570	5,570	5,570
8. Federal GST	1,293	1,293	1,293	1,293	1,293	1,293	1,293	1,293	1,293	1,293
9. Total Tax	12,815	11,984	13,879	13,554	13,540	14,052	12,928	13,391	13,042	13,385
Two Income Family of Four — $80,000										
1. Provincial Income Tax	5,947	5,712	7,223	7,697	6,062	9,130	6,862	6,805	6,805	7,091
2. Health Care Premiums	840	624	—	—	—	—	—	—	—	—
3. Property Tax										
— Gross	2,230	2,200	3,060	3,570	3,850	2,600	1,875	2,250	1,983	1,694
— Net	1,780	2,200	3,060	3,245	3,850	2,600	1,847	2,250	1,983	1,694
4. Sales Tax	1,159	14	1,747	1,528	1,742	2,021	2,032	1,900	1,833	2,596
5. Fuel Tax	150	135	150	158	221	288	191	189	177	206
6. Total Provincial Tax	9,876	8,685	12,180	12,628	11,875	14,039	10,931	11,144	10,798	11,587
7. Federal Income Tax	11,851	11,851	11,851	11,851	11,851	11,851	11,851	11,851	11,851	11,851
8. Federal GST	2,074	2,074	2,074	2,074	2,074	2,074	2,074	2,074	2,074	2,074
9. Total Tax	23,801	22,610	26,105	26,553	25,800	27,964	24,856	25,069	24,723	25,512
Senior Couple with Equal Pension Incomes — $30,000										
1. Provincial Income Tax	718	323	991	493	732	938	828	822	822	856
2. Health Care Premiums	744	624	—	—	—	—	—	—	—	—
3. Property Tax										
— Gross	1,660	1,400	2,035	2,400	2,300	1,900	1,150	1,705	1,408	1,123
— Net	940	400	2,035	2,075	1,700	1,900	933	1,705	1,408	1,123
4. Sales Tax	765	14	1,101	1,027	1,162	1,272	1,312	1,233	1,188	1,731
5. Fuel Tax	100	90	100	105	147	192	127	126	118	137
6. Total Provincial Tax	3,267	1,451	4,227	3,700	3,741	4,302	3,200	3,886	3,536	3,847
7. Federal Income Tax	1,257	1,257	1,257	1,257	1,257	1,257	1,257	1,257	1,257	1,257
8. Federal GST	755	755	755	755	755	755	755	755	755	755
9. Total Tax	5,279	3,463	6,239	5,712	5,753	6,314	5,212	5,898	5,548	5,859

NOTES TO TABLE

Personal Income Tax

- Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level; federal income tax has been reduced by the GST credit. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four is assumed to have one spouse earning $50,000 annually and the other $30,000.

Property Tax

- Estimates of property taxes are from Royal LePage Winter 1992 Survey of Canadian House Prices. It is assumed that the individual at $25,000 and the family at $30,000 rent accommodation; the family at $45,000 and the senior couple own bungalows; the family at $80,000 owns a two-storey executive style home; and the single at $80,000 owns a luxury condominium, in a major city for each province. Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

- Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the 1986 Survey of Family Expenditures. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and rent) costs. The senior couple is assumed to own their own home and have no mortgage costs.
- Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single at $25,000, the family at $30,000 and the senior couple; others are assumed to consume 1,500 litres.

Effective Tax Rates

- British Columbia taxes have been calculated using rates announced in the March 26, 1992, budget. Taxes for other provinces were calculated using rates in effect on March 20, 1992.

TABLE 14

THE FINANCING PLAN
CONSOLIDATED REVENUE FUND

	Actual 1988/89[1]	Actual 1989/90[1]	Actual 1990/91[1]	Revised Forecast 1991/92[1]	Estimate 1992/93
	($ millions)				
Financial Requirements:					
Consolidated Revenue Fund Deficit (Surplus)	(735.6)	(357.8)	727.3	2,344.0	1,789.0
Net Requirements (Sources) from Financing and Working Capital Transactions[2]	69.4	(74.8)	64.8	(536.3)	33.0
Total Financial Requirements	(666.2)	(432.6)	792.1	1,807.7	1,822.0
Financial Sources:					
Net Direct Borrowing (Repayment) for Government Purposes	(97.5)	(710.6)	517.3	1,732.1	1,842.0
Decrease (Increase) in Cash and Short-Term Investments	(568.7)	278.0	274.8	75.6	(20.0)
Total Financial Sources	(666.2)	(432.6)	792.1	1,807.7	1,822.0
Net Debt at Year End:[3]					
Government Direct	4,919.2	4,208.6	4,725.9	6,458.0	8,300.0
Crown Corporation and Agencies	11,155.0	11,324.6	11,800.3	12,061.2	13,222.5
Other Debt and Guarantees	336.0	675.4[4]	675.3	840.8	1,288.5
Total Net Debt at Year End	16,410.2	16,208.6	17,201.5	19,360.0	22,811.0

[1] Restated to conform to the *1992/93 Estimates*.
[2] Financing and working capital transactions represent either a source or use of funds, such as the payment or collection of loans and accounts payable/receivable. They do not cause a change in the annual surplus (deficit) but only a change in the composition of the provincial government's assets and liabilities.
[3] Net of sinking funds and unamortized discount balances.
[4] Restated to include British Columbia Second Mortgage Program guarantees and loan guarantee provisions.

TABLE 15

REVENUE BY SOURCE
CONSOLIDATED REVENUE FUND

	Actual 1988/89	Actual 1989/90	Actual 1990/91	Revised Forecast 1991/92	Estimate 1992/93	Annual Rate of Growth 1988/89 to 1992/93
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	2,995.3	3,451.6	4,140.1	4,287.0	4,712.0	12.0
Corporation income	600.3	666.3	607.5	574.0	602.0	0.1
Social service	1,717.8	1,989.6	2,009.6	1,960.0	2,109.0	5.3
Fuel	465.1	502.3	555.0	542.0	585.0	5.9
Tobacco	262.2	308.0	346.5	430.0	510.0	18.1
Property — residential (school purpose)[1]	—	—	183.2	329.0	406.0	—
Property — business (school purpose)	491.8	522.5	554.5	578.0	621.0	6.0
Property — rural area	44.7	53.8	52.4	51.0	54.0	4.8
Property purchase	248.6	317.4	211.4	288.0	320.0	6.5
Corporation capital	13.8	4.0	10.2	13.0	238.0	103.8
Insurance premium	82.3	95.0	104.2	117.0	136.0	13.4
Hotel room	45.4	53.3	57.0	60.0	64.0	9.0
Horse racing	5.7	6.1	6.1	6.0	6.0	1.3
Succession and gift	—	0.1	—	—	—	—
Total taxation revenue	6,973.0	7,970.0	8,837.7	9,235.0	10,363.0	10.4
Natural Resource Revenue:						
Petroleum and natural gas:						
Natural gas royalties	55.7	62.8	74.5	74.0	86.0	11.5
Permits and fees	146.1	121.6	157.4	91.0	78.0	(14.5)
Petroleum royalties	38.4	42.8	47.8	46.0	57.0	10.4
	240.2	227.2	279.7	211.0	221.0	(2.1)
Minerals	74.9	73.3	45.0	37.0	37.0	(16.2)
Forests:						
Timber sales	423.3	453.5	418.8	438.0	490.0	3.7
Small Business Forest Enterprise Program	134.4	147.3	111.5	136.2	151.0	3.0
Logging tax	50.1	45.7	27.8	(18.0)	(20.0)	—
Other forests revenue	80.4	52.3	51.2	42.8	44.0	(14.0)
	688.2	698.8	609.3	599.0	665.0	(0.9)
Water resources	255.5	236.1	221.9	252.0	289.0	3.1
Wildlife Act	12.6	13.8	14.4	15.0	16.0	6.2
	268.1	249.9	236.3	267.0	305.0	3.3
Total natural resource revenue	1,271.4	1,249.2	1,170.3	1,114.0	1,228.0	(0.9)

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TABLE 15

REVENUE BY SOURCE — *Continued*
CONSOLIDATED REVENUE FUND

	Actual 1988/89	Actual 1989/90	Actual 1990/91	Revised Forecast 1991/92	Estimate 1992/93	Annual Rate of Growth 1988/89 to 1992/93
			($ millions)			(per cent)
Other Revenue:						
Medical Services Plan premiums	580.8	641.0	660.3	745.0	780.0	7.7
Lottery proceeds	181.0	195.8	205.3	208.0	209.0	3.7
Motor vehicle licences and permits	192.7	182.8	199.0	228.0	240.0	5.6
Other fees and licences[2]	234.8	271.9	250.0	315.0	335.0	9.3
Investment earnings	133.8	166.6	110.3	118.0	100.6	(6.9)
British Columbia Endowment Fund	308.5	112.4	52.7	50.0	33.4	(42.6)
Miscellaneous	97.2	140.8	213.2	179.0	170.0	15.0
Total other revenue	1,728.8	1,711.3	1,690.8	1,843.0	1,868.0	2.0
Contributions from Government Enterprises:						
Liquor Distribution Branch	424.6	419.6	446.7	452.0	495.0	3.9
British Columbia Hydro and Power Authority	—	101.1	114.2	60.0	147.0	—
Other	22.8	11.7	68.3	26.0	25.0	2.3
Total contributions from government enterprises	447.4	532.4	629.2	538.0	667.0	10.5
Contributions from the Federal Government:						
Established Programs Financing	1,230.2	1,239.8	1,110.3	1,156.0	1,096.0	(2.8)
Canada Assistance Plan	667.8	686.5	715.9	760.0	798.0	4.6
Other[3]	251.2	221.6	181.3	179.0	171.0	(9.2)
Total contributions from the federal government	2,149.2	2,147.9	2,007.5	2,095.0	2,065.0	(1.0)
TOTAL REVENUE	12,569.8	13,610.8	14,335.5	14,825.0	16,191.0	6.5

[1] Prior to 1990/91, residential (school purpose) property tax was collected by municipalities on behalf of school districts. Revenue shown is net of home owner grants (basic and supplementary). The 1990/91 figure has been restated to include a one-time accounting adjustment for home owner grants applicable to the first three months of the 1990 property tax collection year. This change reduces 1990/91 revenue by $118 million.

[2] For comparative purposes, revenue for 1989/90 and earlier has been restated to include recoveries by the Securities Commission and Provincial Treasury Special Accounts which are included in Consolidated Revenue Fund revenue beginning in 1990/91. Previously, this revenue was deducted from expenditure.

[3] For comparative purposes, revenue for 1990/91 and earlier has been restated to include federal contributions for education of aboriginal children and children of Department of National Defence personnel, which is included in Consolidated Revenue Fund revenue beginning in 1991/92. Previously, this revenue was deducted from expenditure.

TABLE 16

EXPENDITURE BY FUNCTION[1]
CONSOLIDATED REVENUE FUND

	Actual 1988/89	Actual 1989/90	Actual 1990/91	Revised Forecast 1991/92	Estimate 1992/93	Annual Rate of Growth 1988/89 to 1992/93
	($ millions)					(per cent)
Health	4,012.2	4,501.7	5,027.1	5,564.6	5,973.8	10.5
Social services	1,442.5	1,504.3	1,673.6	1,987.1	2,354.2	13.0
Education	2,919.7	3,228.4	4,104.9[2]	4,545.2	4,848.6	13.5
Protection of persons and property	542.0	613.3	725.1	815.1	834.0	11.4
Transportation	844.3	1,198.9	1,187.7	1,256.9	1,108.6	7.0
Natural resources and economic development	897.6	1,005.7	1,063.8	1,471.7	1,131.4	6.0
Other	415.2	455.2	506.5	592.5	705.4	14.2
General government	230.8	235.3	242.9	295.7	229.0	(0.2)
Debt servicing	529.9	510.2	531.2	640.2	795.0	10.7
TOTAL EXPENDITURE	11,834.2	13,253.0	15,062.8	17,169.0	17,980.0	11.0

[1] Expenditure by function has been restated to conform more closely to the presentation used by Statistics Canada.

[2] Beginning in 1990/91, the provincial government assumed full responsibility for contributions to school districts previously funded through residential school property taxes. As a result, residential school property taxes are reported as revenue of the government rather than of local school districts and some expenditures formerly financed by local school districts are included as expenditures of the government.

TABLE 17
NET DEBT SUMMARY[1]

As at March 31,	Actual 1989	Actual 1990	Actual 1991	Revised Forecast 1992	Estimate 1993
	($ millions)				
Purposes:					
Provincial Government Direct	4,919.2	4,208.6	4,725.9	6,458.0	8,300.0
Commercial Crown Corporations and Agencies:					
British Columbia Enterprise Corporation	38.6	—	—	—	—
British Columbia Hydro and Power Authority	7,060.3	7,076.3	7,151.9	6,972.0	7,197.0
British Columbia Railway Company	297.5	258.3	287.0	222.6	220.7
	7,396.4	7,334.6	7,438.9	7,194.6	7,417.7
Economic Development Crown Corporations and Agencies:					
British Columbia Ferry Corporation	75.2	67.6	59.8	51.6	224.5
British Columbia Transit	1,137.4	1,176.8	1,227.6	1,307.2	1,379.9
Other	0.9	2.4	0.6	14.6	14.6
	1,213.5	1,246.8	1,288.0	1,373.4	1,619.0
Social and Government Services Crown Corporations and Agencies:					
British Columbia Assessment Authority	4.8	4.3	6.4	4.0	4.0
British Columbia Buildings Corporation	423.7	504.3	514.3	537.3	548.6
British Columbia Educational Institutions Capital Financing Authority	376.9	425.2	480.7	624.0	832.2
British Columbia Regional Hospital Districts Financing Authority	763.0	788.7	916.4	977.5	1,128.4
British Columbia School Districts Capital Financing Authority	808.7	794.2	952.7	1,139.7	1,455.7
Capital Project Certificate of Approval Program[2]	136.6	196.2	174.5	184.8	184.8
British Columbia Systems Corporation	40.0	36.2	33.8	30.8	36.2
Other	—	55.2	—	—	—
	2,553.7	2,804.3	3,078.8	3,498.1	4,189.9
Less Amounts Held as Investments/Cash Held for Relending by Consolidated Revenue Fund	8.6	61.1	5.4	4.9	4.1
Government, Crown Corporation and Agencies Debt Total	16,074.2	15,533.2	16,526.2	18,519.2	21,522.5
Other Debt and Guarantees[3]	336.0	675.4[4]	675.3	840.8	1,288.5
Total Direct and Guaranteed Debt	**16,410.2**	**16,208.6**	**17,201.5**	**19,360.0**	**22,811.0**

[1] Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.
[2] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program are used for interim financing of capital construction and are eventually converted to long-term debt.
[3] Includes loan guarantee provisions.
[4] Restated to include British Columbia Second Mortgage program guarantees.

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